★ THE MARKET AND BUSINESS TODAY ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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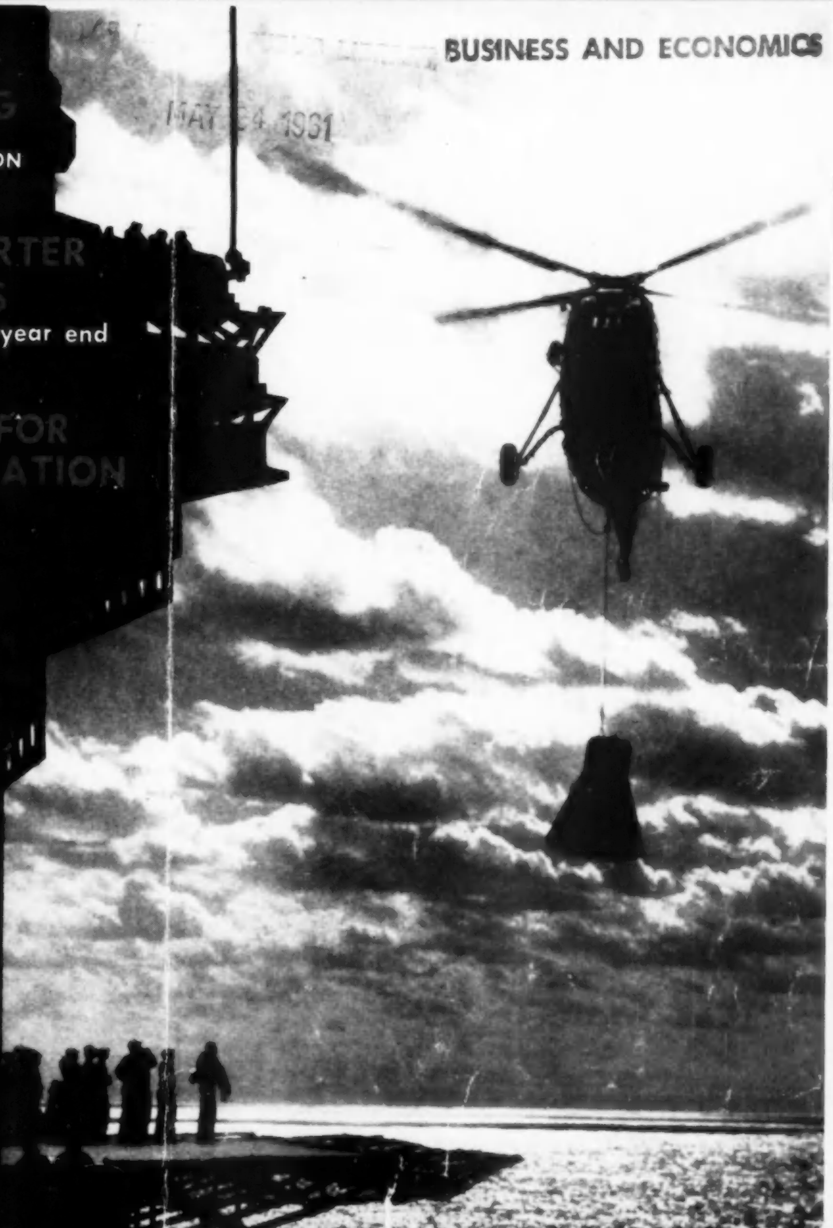

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On Our Cover:
"'A OKAY', well done Commander Shepard". Our cover depicts the return of his capsule to the Carrier U.S.S. Lake Champlain after his successful space shot.
Map page 237: Courtesy of New York Times.

C. G. Wyckoff, President and Treasurer; Arthur G. Gaines, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe to be accurate. Single copies on newsstands in U. S. and Canada: 85 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

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Work starts on 1400 mile pipe line to bring much-needed Canadian natural gas to Northern California. Project is scheduled for completion by the end of 1961. California section of the line is estimated to cost $58,000,000.

P.G. and E. 55th ANNUAL REPORT - 1960

Excerpts:

The year 1960 was one of the most eventful in the Company's history.

New highs were established for sales of gas and electricity, operating revenues, and net earnings. The rate of customer growth fell only slightly below that of the previous year. For the second successive year our sales of electricity exceeded those of any other operating electric utility in the country.

Net earnings for the common stock established a new high, equivalent to $4.14 a share compared with $3.70 in the previous year. Part of this improvement resulted from colder weather in 1960 which substantially increased the demand for space heating. There was no change in the number of common shares outstanding.

* * *

In a year filled with a number of important developments, perhaps the most notable was the receipt in August of the last governmental authorization required for construction of the Alberta-California project. This 1,400-mile, $300 million natural gas pipeline is expected to be completed in late 1961. Construction began in October, climaxing a four-year effort by the Company to obtain access to the natural gas reserves of Western Canada. The successful outcome is of great significance to the future growth of the California economy and to the long-range outlook for the Company.

Construction expenditures amounted to $173 million in 1960. These are expected to rise to approximately $230 million in 1961. The major portion of the increase will be attributable to expenditures for the California section of the Alberta-California project.

* * *

Once predominantly hydro in its electric resources, the Company now relies principally on thermal sources of power. In the past year we placed in operation or commenced construction on three different types of thermal generating facilities. At Pittsburg Power Plant we completed a 330,000-kilowatt conventional steam unit which is twice the size of the largest units previously installed on our system. Like three of similar size that are under construction, this unit uses either oil or natural gas for fuel.

The Geysers Power Plant, which we also placed in operation in 1960, is America's first electric power generating station utilizing natural steam from the earth. Although not of major size, it has attracted considerable attention as a possible forerunner of other similar plants.

Nuclear energy holds much promise as a future economic source of electric power. The Company has been extremely active in this field since 1951. Late in 1960 we received final approval from the Atomic Energy Commission to construct a 60,000-kilowatt nuclear unit at our steam plant near Eureka. Construction of this unit is now under way, to be completed in 1962. The power produced is expected to become competitive in cost with power from conventional sources in the Eureka area after about three years' operation. We are continuing our studies looking to the construction of a large-scale nuclear plant in the San Francisco Bay area.

Although relying increasingly on thermal power, we are continuing to construct hydro facilities. Additions to our hydroelectric generating capacity under construction include a 42,000-kilowatt plant on the Kings River which will be completed in 1962, and replacement of the old DeSabla and Stanislaus Powerhouses with modern plants which will increase their capacity by 47,500 kilowatts.

* * *

The change in our National Administration which occurred on January 20 is of great importance to all Americans. Undoubtedly the new Administration's major efforts must be directed toward maintaining our country's position of world leadership and toward keeping us militarily strong as a deterrent to potential aggressors. Neither of these objectives can be assured, however, unless we maintain a strong economy at home. Essential to a strong domestic economy is a progressive and financially strong utility industry.

FOR THE BOARD OF DIRECTORS

Chairman of the Board — *President*

N. R. Sutherland

PACIFIC GAS and ELECTRIC COMPANY

245 MARKET STREET, SAN FRANCISCO 6, CALIFORNIA

For added information on this essential company write K. C. Christensen, Vice President and Treasurer, 245 Market St., San Francisco 6, for P. G. & E's 1960 **Annual Report.**

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

UNCLE SAM SI! — QUADROS NO! . . . If we had any illusions about the pressing need to look out for ourselves, recent events in Brazil should certainly arouse us to the real dangers we face in this hemisphere if we fail to take positive steps in our own behalf at this time.

Is the $600,000,000 of the taxpayers' money just appropriated by Congress for economic and social aid for Latin America the answer, in the light of events? I doubt it, for the speed with which the bill was passed seems more likely to be based on disorganized thinking as a result of the Cuban fiasco, rather than on real study and mature judgment.

We never seem to learn and have been making off-the-cuff decisions of this kind in dealing with foreign countries for much too long, in the light of the dangers we face. But now that we have acted in haste, let us be sure we do not repent at leisure, by making certain our money will be spent in the right places and not to bolster the overweening ambitions of politicians hungry for power and greedy for wealth.

The New Aspiring Dictator

In Quadros of Brazil we have just such a man, who chooses not to accept the reality of the fact that Cuba has moved into the Communist orbit and menaces the entire hemisphere. His attempt to shrug off the facts in the situation leaves him open to the charge that he, like the wild bearded, chicken-plucking Castro, has become interested in the Communist system, which must appeal to all power-hungry inviduals, since, for the first time in modern history, it has developed a technique by which a small minority can control the masses without giving them anything—and get away with it.

Quadros' statement in Brazilia on May 10th appears clearly to rule out Brazilian support for economic sanctions against Cuba. Nor is he willing to take part in the condemnation of Castro's regime for failure to move toward a free electoral system under representative democracy. On the contrary, he applauds the new Cuban form of government.

We can assume, therefore, that Senor Quadros is planning a similar type of rule for Brazil, and is taking the first step in that direction by what appears to be an evident declaration of sympathy for a Castro-type dictatorship.

Under these circumstances, we would like to protest the making of loans to Brazil on the ground that we would be financing a regime that has already drawn the Iron Curtain aside and taken the first step into that "No-Man's-Land". To have reached this stage in the game, it is clear that the forces of subversion and sabotage must already be strongly entrenched in Brazil, so that any funds we make available to the government will not serve the Brazilian people, but will be appropriated for use in furthering Quadros' personal ambitions, which appear directly opposed to the welfare of the citizens.

Thus, although Brazil's economic position and currency need bolstering, and we would like to be of service to the people of that country, it is clearly unrealistic for the United States to undertake the task under these circumstances. And it may also be too late for us to stop the process set in motion by Quadros.

Dr. Eugene Van Cleef, who has just returned from a tour of South America, will in a coming issue present his findings on the conditions in the individual countries, and Brazil in particular. It will be highly informative and even startling in some aspects, and will offer sound and realistic suggestions on how the

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961

distribution of our aid should be handled to sustain and strengthen our friends, and to avoid the building up of armies that will be turned against us later.

In the meantime, it seems only good common sense to act independently and in our own interests, instead of constantly waiting for our neighbors to make up their minds—mañana . . . and on our allies abroad, who delay needed action when it suits their own interests.

There has been too much hesitation on our part to act decisively for fear of criticism, yet I notice that Mr. Khrushchev does not care what anybody thinks —and nobody condemns any step he takes or questions his right to defend himself. It seems to me that we are entitled to the same prerogative, but for some reason or other we are always apologizing even for accidental missteps and turn the other cheek for that extra slap in the face that we are bound to get.

Certainly the time has come to face the facts—to recognize that the United States has reached a most crucial point in its history, and that resourcefulness, courage and the dictates of common sense must be the basis for all our decisions and actions, if we are to win the decisive battle in this world struggle for power. That "buying our way" is not the answer.

END

By CHARLES BENEDICT

As I See It!

THE LAOS FRAUD
THAT LED TO CALAMITY IN SOUTH ASIA!

—From a new book sent to us for review—"A Nation of Sheep", by William J. Lederer, whose story, "The Ugly American", created such a furor.

IN featuring this story, we do so because it covers the appalling events in Laos, that speak volumes for the inadequacy of our Intelligence (already shown up in Cuba), the implications of which are grave indeed as we face a hostile world. And it tells us plainly the responsibility that is up to each one of us as citizens, to do our part in preventing a recurrence in South America of what happened across the Pacific.

To quote from the book . . .

"In the summer of 1959 . . . the people of the United States were led to believe that Laos had been invaded by foreign Communist troops from across its northern border."

The press carried scare headlines, and leaders in Defense and Government called for world action, although, to quote Mr. Lederer's startling words . . .

***"The entire affair was a fraud. No military invasion of Laos had taken place.* Yet, for weeks, neither our government nor our press bothered to investigate at firsthand. As a result, we came close to triggering war, on false information not of our own gathering. We did in fact make fools of ourselves in the eyes of our friends and 'imperialist warmongers' of ourselves in the words of our enemies and in the opinion of neutrals."**

And to give you a firsthand picture of Laos—its people—and the huge sums that were sent to this tiny country, Mr. Lederer's words that follow are hair-raising:

● "Laos is a small nation—about the size of Idaho or Yugoslavia—and is mostly swamps, jungles, and mountains. There are only 700 telephones. Population figures are nonexistent, although anthropologists believe there are about 1,500,000 inhabitants, most of whom suffer from disease. The people are scattered about in tiny, isolated villages. A large proportion of the Laos don't know the name of their king; or of the nation of which they are citizens.

● "Ninety-five percent of them have never seen or heard a radio. With the exception of several big towns, there is no electricity. Roads are almost nonexistent. Newspapers are unknown. The only way people can get information is when someone comes to their village and tells them in their own dialect."

● According to Mr. Lederer, although we have been supporting the Laotian government since 1955, almost nothing has been done to alleviate the poverty—the ignorance—and the health of the people. He says—"Citizens are so distrustful of their officials that when tax collectors or a platoon of the Royal Lao Army comes to a village, the entire population usually takes to the hills."

In fear that the Royal family might swing entirely over to the Communists as a means of survival, the harried U. S. State Department began to pour vast sums into tiny Laos.

"The first instalment was to be about $35 million, most of it earmarked for the Laotian army of 25,000

men. It was hoped that by this method (in some miraculous, unplanned way), the $35,000,000 would find its way into circulation and improve the common man's standard of living and thereby stiffen his resistance to Communism.

"How did the State Department decide that $35 million a year was required to stabilize Laos? A Congressional investigation revealed that no experts had been sent in to study the needs. . . . The U. S. Government's representatives simply went to the Laotian Minister of Defense and asked the price of operating a 25,000-man army!

"The U. S. Department of Defense objected. There was no military reason for a 25,000-man army in Laos, according to the Joint Chiefs of Staff. But . . . the diplomats overruled the Pentagon.

"During the next five years about $235 millions were shipped to Laos, and approximately 75% of it went into an almost make-believe Laotian army. The greatest portion of the money was handed over in cash; and much of it mysteriously disappeared from public view.

THE STRATEGIC POSITION OF LAOS

"Laotian officials refused to tell American administrators what happened to the money; and they refused to let anyone examine the books. In fact, in many cases there were no books. . . . Laos *was receiving more aid per capita than any country in the world.*

"During the next five years of American assistance to Laos, the ruling clique had a gay time. For example, before the aid started, there had only been about 300 automobiles in Vientiane, the capital. A quarter of a billion dollars of aid later, the muddy streets were crowded with thousands of luxury cars. Vientiane, which previously had been a dull and austere town with hardly one decent restaurant, now had nightclubs charging $2.00 for a drink. Entertainment came from pretty hostesses imported from Hongkong, Bangkok, Manila, and Saigon. Stores bulged with foreign commodities which the average Laotian neither could afford nor knew anything about. Some of the merchandise came from Red China."

Much has been said about the Americans that were involved in this situation, but it is better to let the matter rest since that is water-over-the-dam. **All we are interested in is to present an example of what has taken place in a critical area for the United States, for despite the fact that Laos is a small country and not a rich land — strategically and politically it is the key to a treasure chest, a magic chunk of territory which borders six important Asian nations. Laos is a corridor, an access point, to Thailand, South Vietnam, Malaya, Burma, and Cambodia. It is the northern point of a natural highway which the Chinese Communists hope to follow as far south as Indonesia.**

"Laos may well be the foothold by which Red China can open the door to Southeast Asia's rice bowl, vast oil reserves, and untapped mineral deposits—as well as a supply of labor which is greater than the population of the United States. If Red China should acquire this rich peninsula which is just south of Laos, she would also get a strategic position flanking Australia, New Zealand, and India. It would allow her to snuff out Japan's Southeast Asia trade, without which Japan could be forced to join the Communist axis.

This, then, is why little Laos—a land of swamps, jungles, mountains and illiterate, sick people—is so important!

As Malcolm Stewart pointed out in the last issue, the loss of Laos will undermine confidence in United States leadership everywhere in the world. Already the South Asian states are moving away from us, and are using the cover of neutrality as a desperate compromise in the forlorn hope that it will prevent Red China from swallowing them.

This is what comes of having permitted our allies, in this case Britain, to cling to our coattails in line with their efforts to hold on to some residue of their position in that part of the world. Sympathetic as we may be for their overwhelming problems, yet we could have been of greater service to them if we had maintained the strong position which we enunciated some time ago regarding the taking of a firm stand in Laos.

The British attitude is activated by her desire to hang on to Hong Kong, which she knows Red China could take over by merely walking in, and she therefore has been hoping against hope, that by postponing the day, the situation would change and this calamitous event would never take place. The British have always set great store on muddling through, and our troubles in the Far East result from our becoming involved in this policy of delay and vacillation.

Already the outlook for British retention of Hong Kong and her interests as far south as Singapore are very dim. The whole Southeast is now vulnerable to Communist domination. For years now China has secretly maintained revolutionary cadres there, and Bangkok already envisages stepped up Red activities as a result of the debacle in Laos.

The same is true of Burma, where the settlement of border differences has produced greater rapport with Red China. And in Singapore, a Chinese leftist demagogue won in the recent elections and beat out the candidate backed by Premier Lee Kwan-Yeu. END

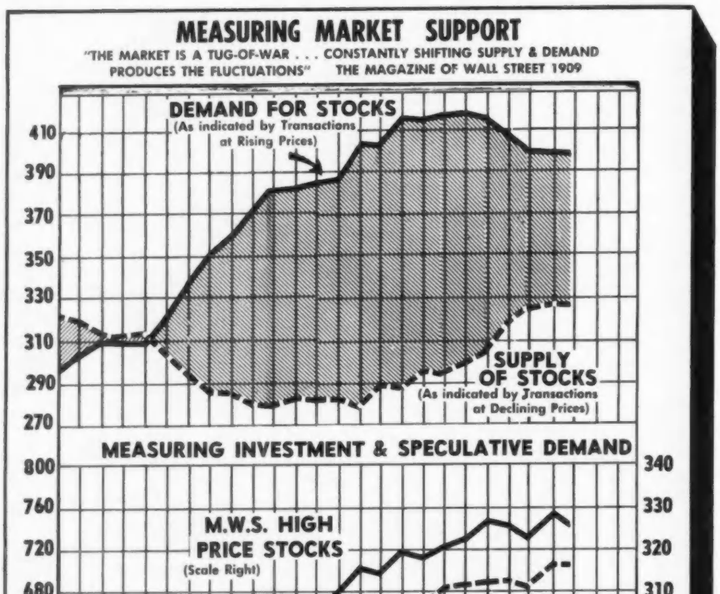
The Market And Business Today

The recent consolidation phase, with the market highly mixed, may continue for a time. But decisive vulnerability is not yet indicated, despite the fact that most stocks are liberally priced as judged by all past standards. Careful selectivity is in order. Business news is increasingly favorable.

By A. T. MILLER

THE market remains in the moderate trading range marked out by the Dow industrial average since attainment of the April 17 all-time high of 696.72 and the March 22 recovery level of 150.81 in the case of the rail average. Following upward tendencies in the prior week, the over-all direction was wildly downward most of last week, with share turnover fairly heavy. However, the week ended on an upbeat, leaving the Dow industrials only 8.81 points, or less than 1.3%, under the mid-April peak.

It can be said that this market is all things to all people. On the one hand, it is increasingly speculative. You see this in the preponderance of lower-priced secondary stocks; in the daily lists of the 15 most active issues; in the fact that in the final session last week, trading volume on the American Stock Exchange topped that on the Big Board for the first time in many years; and in the continuing public mania for almost any new offering in the over-counter market.



● On the other hand, there is at the same time a continuing flow of conservative money into investment-grade stocks, as institutional funds and individuals press the search for relatively good values in a market offering no real bargains. You see this side of the market in last Friday's gain by the utility average to a new postwar high; and in the good relative performances of such groups as banks, finance companies, most foods, confectionery and soft drinks, food stores, shoe stocks and tobaccos.

Selectivity Principal Feature

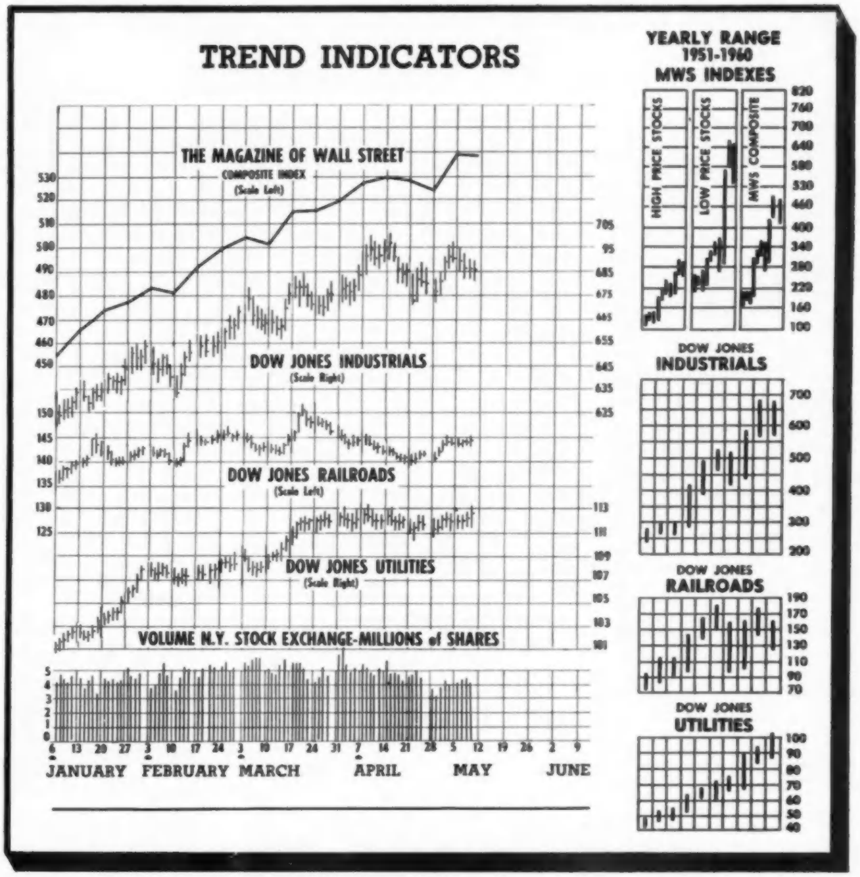
As usual when the industrial average is in a trading-range phase, selectivity is the main feature. Here too, generalization can be misleading. Some stock groups have been in favor for a long time, including most of those cited above, also some others. Otherwise, selective preferences can and often do change from week to week.

Among speculative or cyclical stock groups faring well at the moment are aircrafts, air lines, coal, electronics, and rail equipments, to name a partial list. Although under the peak April numbers, the daily new highs in the individual stocks continue in the vicinity of 100 or more, while daily new lows are few.

If somewhat negative at present, other technical "indicators" cannot be called bearish. Consolidation of the over-all rise — which amounted to about 130 points, or over 25%, for the industrial average in a little less than six months — is clearly justifiable. **The rise made very substantial allowance for the favorable business news now developing.**

So the pause by the industrial average might continue for a while before some renewal of the general forward-discounting tendency begins. **In a relatively early stage of business revival, stocks today are higher than ever before at the peaks of business booms. This is so not only in absolute terms but more significantly in price-earnings ratios and dividend yields.**

It can be argued that this is or will become, unsound, for not many today are paying attention to older concepts of stock values. But this supply-demand balance will inevitably change some day — possibly when industrial production is in new high ground — but so far more investors are inclined to buy or hold common stocks than to sell, and most holders become new buyers as additional funds accumulate. **While valuations of popular stocks are unprecedented, it must be repeated that an important decline in the first stages of business revival would also be unprecedented.**



● Whether too much so or not, the consensus is bullish, investible funds continue to accumulate, few individuals want to hold bonds or preferred stocks. So people and institutions remain buyers of stocks on balance. The balance may be narrow at times, as has been so in recent weeks, but it does not make much difference so long as the basis to trigger a general shift to the selling side has not won wide acceptance.

The Extent of Institutional Buying

***Pension funds* are a bigger factor every year. Net purchases of common and preferred stocks (mostly common) by non-insured pension funds last year were $1.8 billion, doubled in four years; while net purchases by investment companies totalled $1 billion and have changed little in three years. (Source of the data is the annual SEC survey). Still, the scarcity of stocks is not as great as some imagine. The SEC puts 1960 net purchases by all institutional funds and individuals at $3.5 billion, the net addition to shares outstanding at $3.4 billion.**

● Both purchases and portfolio sales by **mutual funds** were at record levels in the first quarter of this year, with net purchases at $317 million, up from $180 million in the 1960 final quarter but only nominally higher than a year earlier and materially lower than in the 1959 first quarter. **It could be said that the funds follow the market and only partly make the market. Their net purchases increased over 75% from the fourth quarter to the first quarter of this year, whereas stocks, of course, were much cheaper in the fourth quarter than the first. Evidently, the funds have bought less on balance so far in the second quarter.**

The Business Scene

If the market pause should continue into June, prior to the usual summer strength, business will do some catching up, for the recent recovery pace has been better than had been expected. In April the Reserve Board's production index rose 2½ points to 105, making up in a single month about a third of the whole mild recession. It will likely be higher for May. Retail trade is slow. Reported unemployment is high, but exaggerated by the loose methods used in estimating the total. (If European countries used these methods their "unemployment" would probably be doubled overnight).

We do not look for a boom, especially in profits; and supply-demand factors argue against significant price inflation. But the Kennedy spending projects and proposals have begun to mushroom; and few at Washington are now paying even lip service to the idea of a balanced budget. You should hold sound stocks. As regards new buying, we say: Watch your step. — Monday, May 15.

Cast of Events . . .

NEW INFLATIONARY PRICE UPSURGE COMING NOW?

By HOWARD NICHOLSON

NOTE—*Here is a lucid, straight-forward story (written by an economist who is an outstanding authority on commodities) that will answer questions uppermost in the minds of businessmen and investors today regarding the inflationary trend and what is causing it—the Administration's position now and why it has changed—and what it is going to mean to us in the not too distant future.*—Editor

THE recent high degree of stability in the overall cost of living and in the wholesale commodity price index have tended to lull the American people into the belief that inflation is a "dead duck" and that a high degree of overall price stability is likely to continue ad infinitum.

However, evidence is accumulating to indicate that recent comparative stability in the cost of living, and in the general commodity price level, may represent no more than a temporary interlude, and that the probabilities are that the beginnings of a new inflationary price upswing will become apparent before many months have passed.

Recent trends in international developments and their impact on the Capital, the "sticky" unemployment situation, the new minimum wage law, and measures instituted and contemplated to raise farm products prices and bolster farm income, are among the factors that suggest that complacency with respect to prices and inflationary possibilities is indeed misplaced.

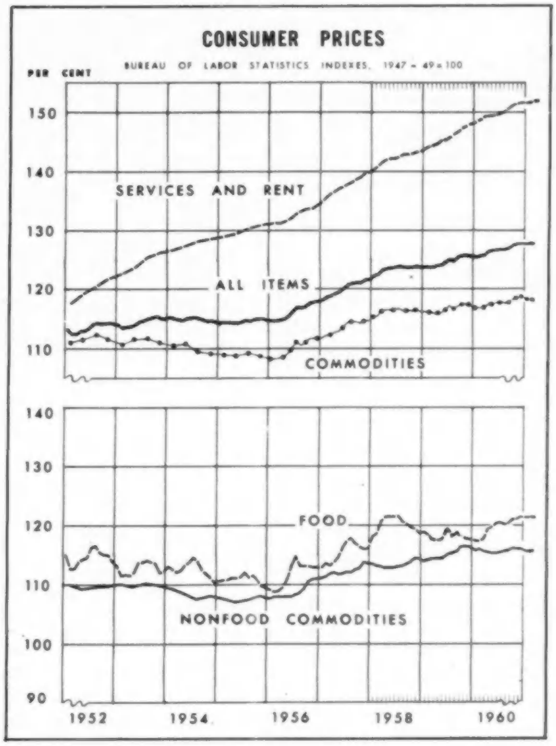
"Rough and Tough"

Machiavelli's "Prince" is supplanting "Winnie Ille Pu" as "required reading" among Washington officialdom.

For many years, Washington has been imbued with the belief that the people of the world must be induced to "love" us, through the pouring out of largesse in various forms, to the tune of many billion dollars.

In addition, our Government has held to the view that by being "morally upright", that is, by never stooping to utilize the skullduggery practiced by Moscow in its international affairs, we should command the respect of the world.

Recent developments have demonstrated that we are neither loved nor respected. But, above all else, Washington suddenly is realizing that for years we have been permitting Moscow to make the first move, or moves in the international chess game while most of our efforts have been designed to check or partially check. This type of strategy is a losing game. Witness Laos; witness Cuba.



Hence Machiavelli. "The Prince" emphasized that the successful ruler should be much less concerned with being loved than with being feared, and stressed that the ruler who is feared is respected.

During the several centuries when Great Britain was the major world power, she seldom was loved. But, she was feared and respected.

Guerrilla Training

The news out of Washington that we are greatly expanding the training of guerrilla forces in our army, to provide the leadership for, and cooperation with guerrilla forces that are friendly to us, is the tipoff to a new plan of action.

Instead of sitting back and letting Mascow direct and aid local communists to take over country after country, while we complain in the United Nations, it is quite obvious that we are planning to attack and counter-attack.

Countries now under communist domination will be forced to contend with constant guerrilla warfare, designed to wear down and overthrow the government. Heretofore, this has been almost exclusively a Moscow tactic.

Unquestionably, this means that the "cold war" gradually will become hotter, but it is highly doubtful that it will erupt into a major war. Force and more force, not words, is the only language that Moscow understands.

"Defense" Spending Rising

Government spending for "defense", as a result of this shift in emphasis, is certain to rise steadily in the years ahead, even though some present types of defense spending may be curtailed or eliminated. **The devotion to a balanced budget, so important to the previous administration, will cut little ice in the years ahead.**

During periods of declared war, this country never has attempted to balance the Federal budget and has gone heavily into debt.

We now are entering a new phase of the cold war—declared by Moscow, not by us—in which there may be almost constant warfare in various parts of the globe, *but never a declared war.*

Like it or not, this has been forced upon us. With the menace of Moscow domination only 90 miles from our own shores, Washington suddenly is acutely conscious that the "free world" is shrinking rapidly. It already is very late.

If free institutions are to survive in this world, we must take a more aggressive stand against aggression.

Budget Deficits

In all probability, balanced Federal budgets in the years ahead will be rarities.

Actually, of course, the international situation has reached the point where the people of the United States should be called upon to do a great amount of belt tightening and forego many luxuries in order to remain free.

Politically, at this stage, this is an impossibility, although eventually we may come to it.

We still want both "guns and butter", and the easy way out for the Federal Government is budget deficits and rising debt.

"Social Gains", Too

Now that this Administration has discovered the facts of life, it is proving to be much more conservative than was anticipated last November.

Nevertheless, despite heightened international tension, the campaign promises of increased Federal spending for social gains of various kinds have not been abandoned completely.

Congress is not inclined to go overboard on Administration proposals. White House recommendations will be pared down. **But, when a host of items are added up, the total sum involved will be considerable and will contribute to unbalancing the budget.**

These include such items as increased Federal aid to education—for slum elimination, to lessen pollu-

tion of lakes and streams—and so on, including quite possibly some form of Federal subsidy for the railroads.

The total of such increased spending. on top of the prospect for increased military expenditures, points definitely to budget deficits.

Deficits Not Feared

Apart from the balance of international payments-gold situation, which presently is not considered as a matter of grave importance, official Washington is not concerned over the possibility of new Federal budget deficits.

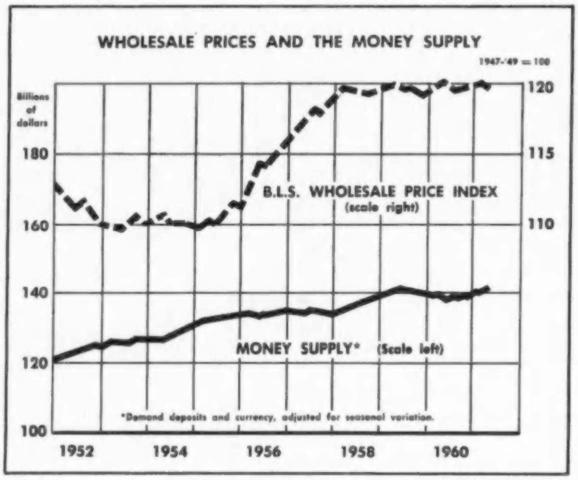
Strange as this may seem to the average business man, Washington is far more concerned over the possibility of a surplus than a deficit.

The "sticky" unemployment situation and the possibility that unemployment will continue relatively high, even after business activity has recovered from the current recession, accounts for much of this concern.

The choice, as the Keynesians see it, is between a balanced budget, a stable price level, high level unemployment ,and less than full utilization of our resources on the one hand, versus an unbalanced budget, "moderate" inflation, "full employment", and full utilization of our resources on the other.

There is no proof, of course, that these are true alternatives but this argument will get you nowhere in official Washington these days.

It is difficult to understand how "structural" unemployment, that is, what we used to call "technological" unemployment, will be eliminated through inflation. However, Lord Keynes seems to have indicated that it would, and that is enough for his disciples.



Full Employment

Actually, no one really knows what "full" employment is. It has been decided, in a sort of economic or statistical vacuum of knowledge, that 4 percent of the civilian labor force of upwards of 71 million at the present time would represent "frictional" or minimum unemployment.

Here and there, the opinion has been voiced that 4 percent may be altogether too low an estimate, but such opinions are regarded officially as heresy.

Unlike many other countries, our data on employment and unemployment are woefully inadequate for the determination of "normal" unemployment. We have no reliable unemployment data, for example, for the 1920's.

We do know that when unemployment has been very low, as at times during the post World War II period, inflation has been rife.

This matter of what constitutes normal unemployment may seem to be purely academic.

It is quite obvious, however, that a concerted Federal drive to restore full employment, that is, to eliminate all but frictional or normal unemployment, could prove to be highly inflationary if the estimate of frictional employment is wrong by one or two percent. And, it well may be that normal unemployment is 6 percent rather than 4 percent.

The Minimum Wage Law

The new minimum wage law may result in increased unemployment by forcing some firms out of business, forcing others to install labor-saving equipment, forcing others to go "self-service", and so on.

Insofar as this may occur, the Federal Government might be forced, in turn, to step up inflationary measures as a counter attack.

Apart from this, it should be realized that moving up the minimum wage a notch or two does not stop there. For, almost immediately, all wage scales in industries where the minimum is raised are thrown out of balance. If, for example, the hourly wage of an unskilled worker is raised to that of a semi-skilled worker, the latter clamors for a wage increase, too. This can go all the way up the line to the highly skilled.

In and of itself, the new minimum wage law may not exert any great amount of upward pressure on the commodity price structure, but it is just one more factor to be reckoned with in analyzing future price prospects.

Deferred Markups

Of more importance, unquestionably, is the mounting backlog of deferred price markups for many industrial products that have been accumulating for a year or more, awaiting a salubrious climate.

The trend of hourly wage rates in industry has continued slowly upward over the past year despite the contraction in business activity, and this trend is expected to be accelerated through raises in accordance with union contracts negotiated one or more years ago and through new wage negotiations. In the steel industry, for example, wage increases are scheduled for October 1.

With business off and with competition keen, few businesses have been willing to risk the possible adverse effects of price markups on their products, needed to compensate for rising labor and other costs. This has been an important factor in the profits squeeze and the declines in earnings.

Despite all the talk about increased productivity, the prospects are that *(Please turn to page 289)*

TWO DYNAMIC OILS

For Investment Consideration

By DONALD TROTT

TWO and a half years ago it was fashionable to speak of the domestic petroleum industry as mature and stagnant. Prices of petroleum equities had tumbled—almost a third of the value of thirty representative oil issues had been eradicated within a year's time. Moreover, the outlook for the international giants was generally considered superior to that of domestic companies due to their geographical diversification, the lower cost of finding and developing reserves abroad and the projected greater future rate of growth of demand overseas.

The domestic industry did not remain passive however. Faced with a new operational environment, requiring different planning and managerial skills, steps have been taken to adjust to the challenge of the 60's.

Quotas, at first voluntary and later mandatory, were instituted to limit the importation of low cost foreign crude. Allowable producing days in Texas and other regulated states were curtailed. Individual companies initiated new programs of diversification, both geographical and product-wise. More efficient operational techniques paved the way for employee cutbacks, with substantial resultant payroll reductions. Petrochemicals, natural gas, and natural gas liquids were given greater emphasis in capital budgets.

Gradually these efforts have been translated into improved operating results. Petroleum industry earnings moved ahead 10% in 1959, and recorded an additional gain of 8% the following year. Further improvement was in evidence during the first quarter of 1961, with earnings climbing 17% from the prior similar period. While much of this earnings comeback may be attributed to better prices, in some instances it is indicative of real progress.

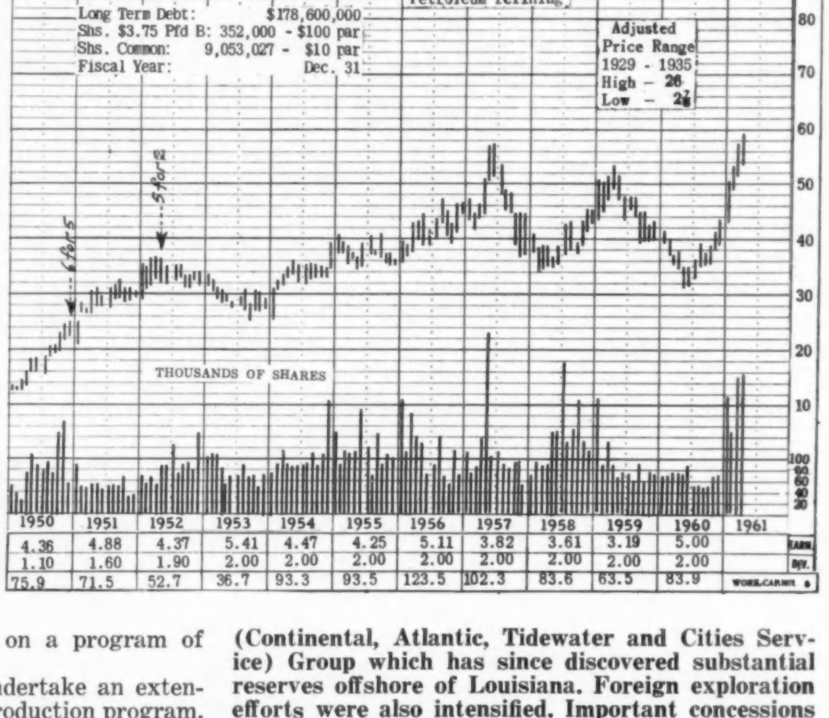
Atlantic Refining and **Union Oil of California** are prime examples of situations where this is the case.

President Supplee Puts Atlantic on the Go

In order to fully understand **Atlantic Refining's** recent improvement, one must go back to 1952 when Henderson Supplee was installed as its president and chief executive officer. The company was faced with many problems. In the past, emphasis had been on refining and marketing activities, with relatively

little attention paid to production and the development of reserves. About 20% of its products were being marketed in the Eastern Hemisphere, where Atlantic lacked both producing properties and refinery facilities. Domestically, marketing was concentrated on the highly competitive Eastern Seaboard, and only slightly more than 50% of raw material requirements were provided internally.

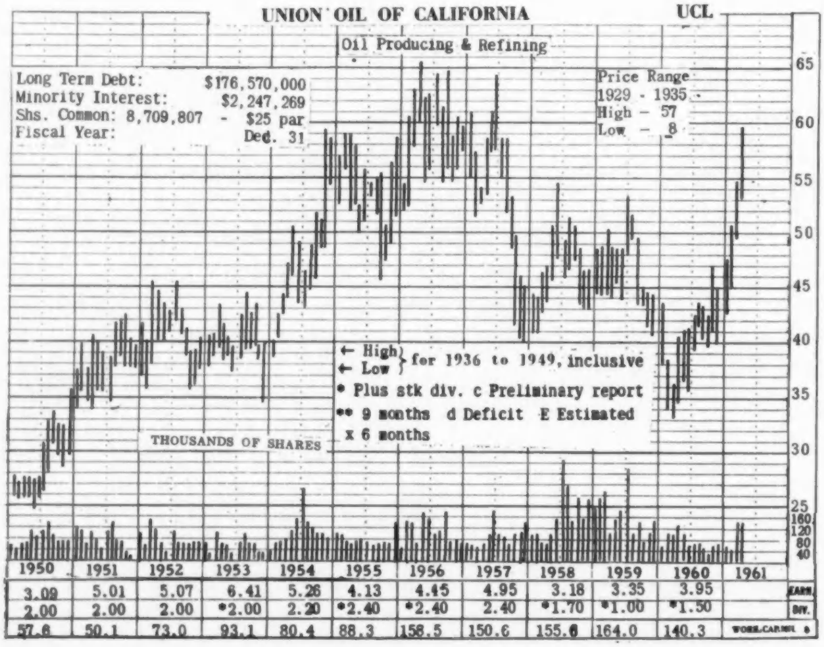
Thus, overseas operations were at a competitive disadvantage with the highly integrated major international oil companies, while the necessity to purchase almost half of its U.S. refinery requirements left Atlantic's domestic earnings vulnerable to recurring periods of contraction as either increasing crude prices or falling product prices brought about a substantial reduction of Atlantic's profit margin. After two years of study, the company's new president embarked on a program of complete realignment.



Lacking sufficient capital to undertake an extensive world-wide exploration and production program, Eastern Hemisphere marketing subsidiaries were sold (at a profit of about $28 million) to British Petroleum, with the resultant capital dedicated to establishing a self-sufficient domestic operation. During the years which followed the Houston Oil Company was purchased, and an intensive domestic exploratory drilling program undertaken.

► A 25% interest was obtained in the CATC (Continental, Atlantic, Tidewater and Cities Service) Group which has since discovered substantial reserves offshore of Louisiana. Foreign exploration efforts were also intensified. Important concessions were acquired in Lake Maracaibo, Venezuela.

In partnership with others acreage interests in Guatemala and Turkey were purchased, along with a small participation in the Iranian Consortium. Promising concessions in Bolivia were added in 1959, and in 1960 a foothold was obtained in Libya and the Spanish Sahara, two of the most interesting new areas of petroleum discovery to emerge in recent years.



► Secondary recovery techniques, many of which were developed by Atlantic, have been put to use, increasing substantially the percentages of oil in place which can economically be withdrawn from the company's properties. As well as greatly enhancing Atlantic's underlying values, these measures have led to impressive changes in the company's operating statistics.

Whereas in 1954, 55% of refining requirements came from company production, Atlantic provided almost 80% of its needs last year, and had it not been for government restrictions on production at home and imports from abroad, 100% self-sufficiency might have been achieved. The extent of this program to develop its own sources of crude is indicated by the following figures. Domestic and Canadian acreage holdings have increased

65% during this period while foreign oil rights are now held on over ten times as much acreage as in 1954!

Other Areas of Accomplishment

During these years the company's refining capacity has remained more or less constant, but both the Philadelphia and Gulf Coast units have gone through complete expansion and modernization programs. Product yields have become more favorable, and after six years of research costing millions of dollars, a major breakthrough described by one Atlantic executive as "a completely novel addition to the catalytic scene" has recently been announced. To be put to use for the first time this summer, it is expected to substantially improve the efficiency of the catalytic cracking process widely used throughout the petroleum industry, providing both operating economies and product advantages.

In addition, greater emphasis has been placed on the manufacture of petrochemicals and other specialty products such as waxes and asphalts. Further diversification along these lines is expected to follow, and at Atlantic's recent annual meeting, Mr. Supplee spoke of studies now taking place to provide for entry into completely new activities outside of the petroleum business. Within this changing framework, Atlantic has found it now can conduct its operations with less manpower than was previously required, and during 1960, payroll expenses were almost $7 million less than for the prior year.

Income Data

	Total Operating Revenue	Deprec., Depletion Amort., Etc.	Income Taxes	Operating Ratio	Net Income	Net Profit Margin	Net Earnings Per Share	Div. Per Share
ATLANTIC REFINING CO.								
1961 (1st Quarter)	$156.4	$N.A.	$N.A.	N.A.	$14.8	9.4%	$1.60	2.00[1]
1960	561.2	52.2	3.9	9.7	46.5	8.3	5.00	2.00
1959	541.2	47.4	.4	6.4	30.1	5.5	3.19	2.00
1958	538.1	46.4	CR2.1	4.6	36.1	6.2	3.86	2.00
1957	565.9	51.6	CR .6	4.2	35.6	6.3	3.82	2.00
1956	544.8	47.0	6.7	8.2	47.1	8.6	5.11	2.00
UNION OIL CO. OF CALIF.								
1961 (1st Quarter)	$127.8	$15.8	$N.A.	N.A.	$ 9.1	7.1%	$1.05	[2]2.00[1]
1960	440.5	63.8	6.6	9.9	34.4	7.8	3.96	1.50[2]
1959	423.8	69.1	3.1	7.3	27.5	6.4	3.35	1.00[2]
1958	408.0	60.6	.3	6.7	25.0	6.1	3.18	1.70[2]
1957	432.6	66.5	1.8	9.6	38.2	8.8	4.95	2.40
1956	396.4	59.8	2.1	9.5	34.2	8.6	4.45	2.40[2]

N.A.—Not available.

1—Indicated for 1961.
2—Plus stock.

Income Statement Also Revitalized

Moreover, further reductions, estimated at approximately $10 million (or about $1.00 per common share) will be realized this year, although the effect of this, will in part be offset by a recently granted industry-wide 5% wage increase. Last year, aided by a record fourth quarter—during which the company earned $2.08 per share compared with less than 25% of that amount reported for the final three months of 1959—earnings rebounded sharply to $5.00 per share. One thing became readily apparent. The $2.08 fourth quarter proved that significant latent earning power has been built up during the years of internal reorganization and realignment. Given favorable industry conditions Atlantic can show impressive earnings.

During the 1961 first quarter this trend has continued with per share earnings climbing 70% to $1.60, up from $0.93 earned in the initial 1960 quarter. Further improvement is expected, and for the year as a whole per share earnings will probably fall within a range of $6.00-6.25. Thus within two years this $820 million corporation will have almost doubled per share earnings. Moreover, if reasonable prices prevail, Atlantic's recent earnings comeback is likely to extend into 1962 when Venezuelan production will be sharply stepped up, and the economies of the new catalyst will no doubt result in lower manufacturing costs at Atlantic's refineries. Reflecting the company's optimistic outlook it was recently indicated that the $2.00 annual dividend shareholders have been receiving since 1953, will be increased in the not too distant future.

Balance Sheet Items

	Atlantic Refining Co. 12/31/1960	Union Oil Co. of Calif. 12/31/1960
	(Millions)	
Common Stock and Surplus	$ '508.7	$ '394.3
No. of Common Shares Outstanding	9.0	' 8.7
Preferred Stock Stated Value	$ 35.2	None
Long Term Debt	$ 176.8	$ 176.5
Cash. & Marketable Securities	$ 31.6	$ 68.5
Inventories, Net	$ 71.2	$ 48.9
Receivables, Net	$ 61.2	$ 85.3
Current Assets	$ 168.9	$ 214.4
Current Liabilities	$ 84.9	$ 74.1
Net Working Capital	$ 83.9	$ 140.3
Current Ratio (C.A. to C.L.)	2.0	2.9
Gross Property	$1,115.9	$1,044.0
Reserve for Deprec. & Amort.	$ 498.1	$ 561.2
Total Assets	$ 819.9	$ 733.9
Book Value Per Common Share	$ 57.15	$ 54.63
Earnings Per Share 1960	$ 5.00	$ 3.96
Recent Price of Common Stock	59	62
Price Earnings Ratio	11.8	15.6
Indicated 1960 Dividend	$ 2.00	$ 2.00[1]
Dividend Yield	3.3%	3.2%

1—Plus stock.

Union Oil of California

Atlantic Refining is not the only major oil company exhibiting new *(Please turn to page 290)*

The Shift and Change in the AIRCRAFT INDUSTRY

By ALEXANDER S. RICHFIELD

— Offers exciting prospects and serious hazards — Where the companies stand individually — their prospects — earnings-dividend outlook through 1961

COMMANDER Shepard's unprecedented feat of flying a manually controlled missile into outer space has enormous significance for the aircraft industry, in addition to the pride and the lift in morale it has given to all Americans. We have shown the world that our vaunted technological abilities are not in eclipse after all, and in some aspects we hold decided superiority over Russia's progress in rocketry. And because of the enormous publicity given the event, the world has learned that our control over space projects is at a very high level, or we would not have succeeded without a hitch on our first try. We have come a long way since our first fumbling attempts with the Vanguard.

For the aircraft industry, however, the flight is just the beginning for the more than 9,000 companies that participated in the event. President Kennedy seems determined to outclass the Russians, not only in the quality of our progress, but also in the one field of rocketry in which they are the undoubted leaders. Whether or not Major Gagarin actually orbited the earth, there is no doubt that the Russians can put heavier objects aloft than we can because of their headstart in propulsion. The thrust behind their rockets is still more powerful than any thing we yet have.

The world, incidentally, cannot be expected to understand that our lag in propulsion is not a technological one, but rather the result of a deliberate decision. Once we had reduced the size of H-bombs to miniature proportions we decided it was unnecessary to build the more powerful missiles needed for delivering heavy payloads. The Russians, on the other hand kept their eye on the prestige of being first in space, and hence developed a several year lead on American scientists in that respect.

Nevertheless, the defense program will now be altered to enable us to catch up in propulsion. Most of the changes, however, will have to fall within the expanded budget Mr. Kennedy has already handed to

Statistical Data on Leading Aircraft Companies

	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	1st Quarter Earnings Per Share 1960	1st Quarter Earnings Per Share 1961	Dividends Per Share 1960	Dividends Per Share Indicated 1961 †	Recent Price	Div. Yield	Price Range 1960-61
Avco Corp.	$ .93	$ .97	$1.63	$ .20	$ .24	$ .50	$ .60	20	3.0%	21⅛-11¾
Beech Aircraft	4.74[1]	5.41[1]	6.22[1]	.92[2]	.50[2]	.53	.60	22	2.7	27¼-17¼
Bell Intercontinental	1.26	.78	1.54	.42	.06	.50[8]	1.00	15	6.6	17⅛-11⅛
Boeing Airplane	1.65	3.07	5.71	.51	.75	1.15	1.60	47	3.3	47⅞-23
Cessna Aircraft	2.47[1]	2.24[1]	2.85[1]	1.31[2]	.99[2]	.81	1.00	39	2.5	39½-26
Chance Vought Aircraft	4.12	3.27	6.21	.74	.79	2.00	2.00	51	3.9	52⅞-26½
Curtiss-Wright	1.71	1.15	2.32	.22	N.A.	2.00	2.00	19	10.5	31⅛-14⅝
Douglas Aircraft	d3.86	d5.09	—	d1.82	.45	—	—	34	—	42⅜-27
Fairchild Engine & Airp.	.36	d.26	—	d.11	N.A.	—	—	11	—	11¾- 5½
General Dynamics	3.12	d2.71	.30	.62	N.A.	1.75	1.00	39	2.5	53⅜-33½
Grumman Airc. Eng.	2.24	3.27	5.29	.88	.73	1.50	1.50	32	4.6	35⅞-22⅛
Lockheed Aircraft	1.21	d5.80	—	.38	.59	.30[8]	—	41	—	45⅝-18⅜
Marquardt Corp.	.96	.86	1.77	.07	.11	—	—	21	—	40¼-16¼
Martin Co.	2.17	2.71	4.42	.57	.79	.85[8]	1.00	37	2.7	39½-18
McDonnell Aircraft	3.05[3]	3.55[3]	5.22[3]	.84	.93	.75[8]	1.00	35	2.8	36⅜-15⅝
North American Aviation	3.78[1]	2.87[1]	4.94[1]	1.43[4]	1.43[4]	2.00	2.00	45	4.4	53⅝-29⅝
Northrop Aircraft	4.01[5]	4.22[5]	6.36[5]	1.71[9]	2.20[9]	1.60	1.60	62	2.5	64⅞-24¾
Piper Aircraft	3.00[1]	3.29[1]	3.75[1]	.53[4]	1.77[4]	1.10	1.15	59	1.9	73 -42⅜
Republic Aviation	2.37	3.29	4.93	.35	1.87	1.00	2.00	47	4.2	50½-19⅞
Rohr Aircraft	1.40[5]	d1.40[5]	—	.35[8]	1.19[8]	1.00	1.00	26	3.8	26⅞-12⅜
Ryan Aeronautical	1.72[6]	1.76[6]	2.88[6]	.15[7]	.37[7]	.20	.20	21	.9	26¼-14¼
United Aircraft	4.26	1.95	6.87	.95	N.A.	2.00	2.00	48	4.1	48⅞-32⅜

†—Based on latest dividend reports.
d—Deficit.
N.A.—Not available.
[1]—Years ended Sept. 30.
[2]—6 months ended Mar. 31.
[3]—Years ended June 30.
[4]—6 mos. ended Mar. 31.
[5]—Years ended July 31.
[6]—Year ended Oct. 31.
[7]—Quar. ended Jan. 31.
[8]—Plus stock.
[9]—6 months ended Jan. 31.

Avco Corp: Nose cone contracts for missiles and some success in electronics, has finally led to more profitable operations. **C1**

Beech Aircraft: End of some military contracts, plus curtailment of B-70 subcontracts will lead to moderately lower sales and earnings. **B4**

Bell Intercontinental: In process of reorganizing from aircraft to diversified industrial products. Little earnings during transition. **C2**

Boeing Airplane: Strong earnings trend in prospect with heavy write-offs out of the way. New contracts help earnings for several years. **B1**

Cessna Aircraft: Aftermath of recession will carry into 1961, leading to lower sales and earnings from civilian aircraft. **B4**

Chance Vought: Company is cutting down participation in aircraft and building up missile, electronics, and housing operations. Level earnings seen. **C2**

Curtiss-Wright: Earnings have been in downtrend. New electronics work, however, and heavy R&D outlays may eventually reverse picture. **C4**

Douglas Aircraft: End of special writeoffs should boost earnings in 1961 despite slackening of sales. Other problems will cut growth, however. **B1**

Fairchild Engine: Subcontracts for B-52, plus prospects for a new engine may lead to higher earnings. First quarter showed improvement. **C1**

General Dynamics: With costs of jetliners now absorbed, company should move into profitable operations. Heavy contracts favor sales growth. **B1**

Grumman: Company produces special types of military aircraft with demand continuing. Operations are now at peak. **C1**

Lockheed Aircraft: Exceptional expenses of development and remodification of Electra are now over. Strong earnings rebound should follow. **B1**

Marquardt Corp: Major missile engine contractor. Growth record is not outstanding, but steady earnings in prospect. **B2**

Martin Co.: Company is among best situated in missile field, and is entering into strong earnings trend. **B1**

McDonnell Aircraft: Phasing out of naval aircraft contract may stop earnings progress, despite good position in missilry. **B2**

North American Aviation: Well diversified among the aircrafts, company is in all phases of missile program. Higher earnings indicated this year. **B1**

Northrop: Jet trainer contracts are moving into peak levels, and earnings should follow this year. **C1**

Piper Aircraft: Good long term prospects, but earnings this year may be down because of curtailed demand for small craft. **B4**

Republic Aviation: Full production schedules for advanced fighter plane will probably boost earnings to high level in 1961. **C1**

Rohr Aircraft: Excellent order for aircraft parts, plus good role played in missile program favors earnings outlook. **C1**

Ryan Aeronautical: Missile and aircraft components order backlog now in good shape. First quarter improvement. **C1**

United Aircraft: Company is in transition phase. Earnings held down by large research and development expenditures, which should eventually pay off. **A4**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

Congress. Propulsion efforts such as Saturn, Nova and Rover, will get higher priority. So will more advanced versions of Mercury, the man-in-space project. But to make room for these, something will have to give. Current strategy favors more mobile or less vulnerable missile bases, hence, we can expect a pick-up in the Minuteman missile, which is to be sunk into concrete underground sites; and the submarine based Polaris.

Under the circumstances, Titan will probably be cut back even further, and others such as Apollo will be slower in development. In effect, the Administration will be striking a compromise between its strategic decision to concentrate on "limited" war weapons, greater mobility and decreased vulnerability—and the need for a public relations victory in the more useless, but prestige-filled space conquest sphere.

Other casualties affecting the fortunes of major companies are in the wind. North American's B-70 bomber is definitely getting the axe. United Aircraft and General Electric will lose their developmental contract for a nuclear aircraft engine; and Bendix will have to get along without the Eagle missile. But, on the other hand, Skybolt, an air-launched missile being developed by Douglas, GE and North-

rop will be pushed harder—and strange as it seems, the manned-bombers such as Boeing's B-52 will get a new lease on life, since they represent our best and most reliable instant alert weapons at the moment.

What's Ahead

As confusing as this picture is for the individual companies, the new approach will mean more dollars for the aircraft industry in 1961 despite lower sales of commercial jet airliners. Profits, however, will be more scrambled since fortunes will depend on the ultimate fate of the important projects each company is working on. On the whole, though, profits will be better for the aircraft companies in 1961. The reasons are no mystery. Huge companies such as Boeing, Douglas and Lockheed have finally written down the enormous costs of their jetliner developmental programs and are now ready to show high profitability again. The pattern from company to company will be so diverse, however, that each one is better taken up separately.

Before tackling the individual companies however, a word of warning is in order. The aircraft industry has become something like a game of musical chairs. Contracts and projects are constantly being developed, assigned, withdrawn, cancelled or delayed with each change in the political and technological wind. Hence a company that seems firmly entrenched today may find its major programs cut to the bone tomorrow. Or more important, the entire emphasis of a company's developmental programs may suddenly be rendered obsolete.

Investments in aircraft stocks, therefore, will continue to be a risky and heart-rending business. The government has shown less reluctance in the last few years to declare all projects expendable, changing the fortunes of companies over night. The results can lead to stiff cutbacks in the earnings of companies that appear in sharp upward trends, and sudden reversals of dividend policies. These uncertainties are already being reflected in the ragged action of the aircraft stocks in the market, and in the sharp downward moves these stocks have on adverse news.

Company Prospects

North American Aviation is a good case in point. The company is probably involved in more major space, missile and aircraft projects than any other company—and is therefore assured of a steady flow of business regardless of which direction defense procurement takes. Yet the stock has constantly been buffeted by bad news. It pioneered the X-15 experimental rocket plane only to lose it to the air force once it was developed. The B-70 bomber, only two years ago was a top priority vehicle designed to assure the U.S. superiority in deterrent powers anywhere in the world. Now the emphasis has shifted to Minuteman and Polaris, and the B-70 is being starved to death.

Aware investors know that North American has a hand in virtually every major missile engine being developed, but the glory (and the price increases) go to the prime contractors. Hence, North American, which will show a sizeable earnings increase this year, has been under constant price pressure.

Revenues declined last year as various projects were closed out, but in 1961 new sources of revenue will lead to a sharp recovery, even without the B-70. The company plays a major role in the Polaris and Minuteman projects; it still has substantial contracts for jet trainers for the air force; and it is the principal manufacturer of engines for the Atlas missile. These projects will be active enough to raise sales to a near record $1.2 billion and to push earnings back to close to $4.00 per share.

Dividends will probably remain at 50¢ quarterly, at least through most of the year, affording a better than average return.

Boeing will also have a far better year in 1961. Its jetliners have been the most successful of all the competitors, and has been the least expensive to produce. The reason is that its main liner is merely a modified version of the B-52 bomber which was developed almost completely with government funds. The B-52, incidentally will be in even greater demand as a frontline bomber now that the B-70 has been shelved.

In addition, Boeing will benefit from a speed up in the Dyna Soar project and from Skybolt which will use B-52s as a launching base. Missileman is also in Boeing's arsenal, making the company one of the most favored in the defense program at the moment.

Higher revenues coupled with lower write-off charges against its jet liners will lead to substantial earnings improvement in 1961, continuing the process that began in 1960 when earnings jumped to $3.07 from $1.65 the year before. Per share net of around $4.00 seems in the offing this year. The 40¢ quarterly dividend is the minimum expectation.

The biggest swing in earnings this year will come from **Douglas.** In the last two years the company has reported whopping deficits, traceable mostly to the heavy write-offs of its DC-8 jets. Douglas, it should be pointed out had to pay for it all by itself since it did not have the advantage of a military prototype, as did Boeing. With most of the punishing effects of these write offs now out of the way, Douglas should be able to report at least $2.00 per share this year.

However, the company's problems are still far from over and illustrate the uncertainties of the aircraft industry these days. New orders for DC-8 are not strong; the C-133 Cargomaster military contract is running out; and the Missileer airplane has just been cut from the defense budget. In addition, the Nike-Hercules production project is being phased out, and no new big contracts have come along lately to take its place.

The results will be lower revenues this year, but higher profits stemming solely from the smaller write-offs. The bleaker outlook for 1962, however, in the absence of new contracts, makes dividend resumption unlikely this year.

United Aircraft also faces a relatively poor year in 1961, continuing the process of decline that began in 1957. The company was literally caught short by the swing to missiles. Its major field of endeavor had been aircraft engines and propellers. The swing to jets was not too bad, despite the loss of a good deal of propeller business; but the missile splurge has left United almost out in the cold. Fortunately, the company's excellent financial resources have protected shareholders while the painful process of developing products for the missile age were worked on. Even so, however, the dividend is in jeopardy in 1961.

Heavy research costs, which last year absorbed

Comprehensive Statistics Comparing the Position of Leading Aircraft Companies

Figures are in million dollars except otherwise stated.	Boeing Airplane	Curtiss-Wright Corp.	Douglas Aircraft	General Dynamics	Lockheed Aircraft	Martin Co.	North American Aviation	United Aircraft
CAPITALIZATION:								
Long Term Debt (Stated Value)	$ 70.5	—	$ 87.9	$147.5	$ 39.8	$ 15.5	—	$ 50.0
Preferred Stocks (Stated Value)	—	$ .6[2]	—	$ 51.6	—	—	—	$ 34.3
No. of Common Shares Outstanding (0(	7,971	7,675	3,817	9,982	7,400	6,210	8,155	6,396
Capitalization	$197.0	$ 8.3	$119.7	$209.1	$ 47.2	$ 18.6	$ 8.1	$116.3
Total Surplus	$110.4	$195.8	$ 87.4	$227.6	$ 95.9	$ 87.4	$205.2	$222.7
INCOME ACCOUNT: Fiscal Year Ended	12/31/60	12/31/60	11/30/60	12/31/60	12/25/60	12/31/60	9/30/60	12/31/60
Net Sales	$1,554.5	$270.5	$1,174.0	$1,987.7	$1,332.2	$651.2	$964.1	$987.8
Deprec., Depletion, Amort., etc.	$ 21.0	$ 7.7	$ 14.5	$ 30.1	—	$ 10.6	$ 16.9	$ 30.0
Total Income Taxes	$ 27.3	$ 9.0	$CR21.0	$CR34.7	$CR41.0	$ 17.8	$ 23.3	$ 14.1
Interest Charges, etc.	$ 7.3	—	$ 4.2	$ 12.5	$ 6.6	$ 2.2	$ 2.1	$ 5.1
Balance for Common	$ 24.4	$ 8.8	$d19.4	$d27.0	$d42.9	$ 16.8	$ 23.4	$ 12.1
Operating Margin	3.6%	5.5%	—	—	—	5.5%	4.8%	3.0%
Net Profit Margin	1.5%	3.7%	—	—	—	2.5%	2.4%	1.4%
Percent Earned on Invested Capital	10.3%	4.8%	—	—	—	18.6%	10.9%	4.7%
Earned Per Common Share	$ 3.07	$ 1.15	$ d5.09	$ d2.71	$ 5.80	$ 2.71	$ 2.87	$ 1.95
Cash Earnings Per Share	$ 5.71	$ 2.32	—	$ .30	—	$ 4.42	$ 4.94	$ 6.87
BALANCE SHEET: Year Ended	12/31/60	12/31/60	11/30/60	12/31/60	12/25/60	12/31/60	9/30/60	12/31/60
Cash and Marketable Securities	$ 28.8	$ 70.7	$ 28.3	$ 53.1	$ 30.2	$ 16.9	$ 27.5	$ 34.2
Inventories, Net	$233.7[1]	$ 59.1[3]	$239.1[4]	$444.8[5]	$176.1	$ 66.2[6]	$ 12.0	$200.0
Receivables, Net	$164.1	$ 39.9	$ 32.4	$ 97.4	$224.1	$ 99.8	$141.8	$143.7
Current Assets	$429.7	$157.6	$328.2	$626.1	$445.6	$183.8	$302.3	$379.3
Current Liabilities	$229.7	$ 33.0	$206.2	$404.2	$388.0	$135.1	$172.1	$177.6
Working Capital	$200.0	$124.6	$122.0	$221.9	$ 57.6	$ 48.7	$130.2	$201.7
Current Ratio (C. A. to C. L.)	1.8	4.7	1.6	1.5	1.1	1.3	1.7	2.1
Fixed Assets, Net	$ 88.7	$ 61.6	$ 57.3	$191.4	$ 73.8	$ 50.1	$ 82.2	$124.3
Total Assets	$537.2	$237.4	$417.0	$842.3	$534.3	$246.6	$385.6	$522.7
Cash Assets Per Share	$ 3.74	$ 9.21	$ 7.43	$ 5.32	$ 4.08	$ 2.72	$ 3.37	$ 5.35

1—Net of $356.3 million adv. & progress payments.
2—590,319 class "A" shares.
3—After deducting $16.4 million partial payment on U. S. Gov. contracts.
4—Includes cost fixed for contracts.
5—Includes unreimbursed expenditures.
6—Includes unbilled costs.

$3.00 per share, provides the principal explanation for the company's poor earnings in 1959 and 1960. They are necessary for the company's survival, but from an earnings point of view things will get worse before they get better. In 1960, United spent $40 million on research and development. In 1961, revenues will rise a bit, but R & D will climb further to $50 million; and by 1962 the figure will soar to $62 million.

All of these outlays should mean a bright future for United, but for the next year or two shareholders will have considerable suffering to do.

Companies on the Upgrade

The troubles of a few major companies doesn't change the fact that for most firms in the industry 1961 will be a happier year than 1960.

Lockheed's fortunes are certainly looking up. Earnings in 1960 fell to a disastrous $5.80 deficit per share from a profit of $1.21 the year before. However, things in 1960 were not as bad as they looked on the surface. The company's Electra jet transport developed a bug that led to several unfortunate crashes, and an obligation on the company's part to make costly changes in all planes it had produced. Lockheed elected to write off all of these exceptional costs in 1960, wiping out all profits.

In 1961, however, the full force of the company's jetliner and military business will come to the fore. Earnings will rise to at least $3.00 per share, and dividends will be restored sometime in the second half of the year.

Lockheed is on the recovery trail, but **Martin Co.** appears to be at the start of a major growth trend in its earnings picture. The company led the parade in getting out of aircraft production and into missiles—and now its early lead is beginning to pay off. Martin has made itself a major missile manufacturer, with an arsenal that includes Bullpup, Mace, Titan, Pershing and Lacrosse. In addition, electronics and nucleonics loom big in Martin's corporate structure.

With most of its projects now operative, Martin's sales and earnings will rise sharply over the next few years. For 1961, earnings should approach $3.50 per share compared to $2.71 a year ago. The recently established 25¢ quarterly dividend could be raised again.

General Dynamics will also score a handsome earnings improvement in 1961. As the main producer of Atlas and the biggest manufacturer of submarines for the Polaris project, Dynamics has good revenues. However, like Douglas and Boeing, the costs of jetliner development have been sapping reported earnings. With most of the writeoffs out of the way now, however, *(Please turn to page 288)*

Inside Washington

BY "VERITAS"

INTELLIGENCE SERVICES—Central Intelligence Agency and those of the Pentagon—are in sore need of an overhaul and consolidation, according to top-flight Congressional opinion. Although Senate Foreign Relations Subcommittee on American Affairs, headed by Wayne Morse (D., Ore.), is apparently satisfied with explanations of Secretary of State Dean Rusk and CIA Chieftain Allen W. Dulles for the Cuban invasion fiasco, it happens that other Capitol Hillians feel differently, and it is a feeling that possibly extends into the White House. The Cuban debacle was the making of State and CIA, with little or no blame on Army, Navy and Air Force intelligence groups; nevertheless, there is strong Congressional sentiment for a complete probe of CIA, and elimination of Allen Dulles as head. Further, it is felt the Defense forces should consolidate their cloak-and-dagger activities under a single head. Administration still supports Dulles but he has definitely lost ground on Capitol Hill.

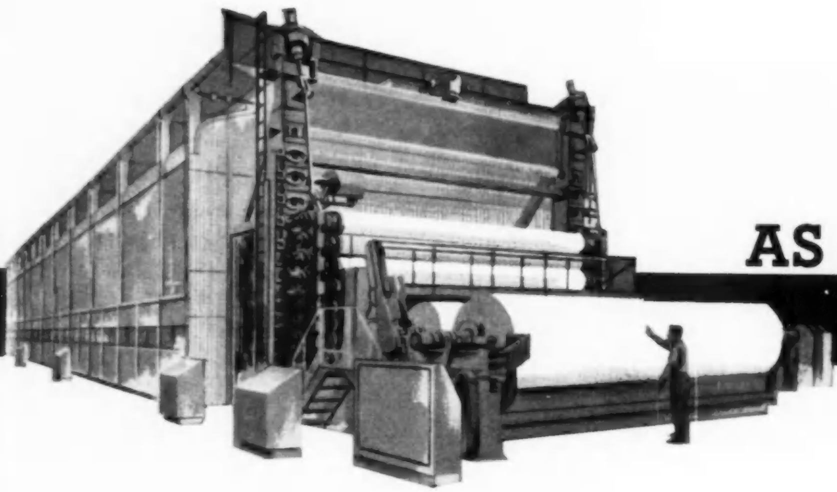
WASHINGTON SEES:

Our foreign relations picture is still foggy as a result of our blunders in Cuba and Laos, where we permitted Britain to stymie our decision to make a firm stand, and adopted her "muddling through" tactics instead. The only ray of hope came from the boost to our prestige around the world as a result of our astronaut's successful flight into space, for it brought realization that the United States was not backward on the scientific front as compared to Russia, and checked the malicious glee with which the communist world was exploiting the space flight of Major Gagarin, which may or may not have ever been accomplished. And of equal importance, it gave a lift to the morale of the folks at home, something that was long overdue.

To what extent it had a salutary effect on South America remains to be seen, with or without the $600,000,000 voted by Congress for aid. If we handle the latter with the same irresponsibility used in other corners of the world we will not fare well, because our aid will never reach the submerged millions who really need our help, for the money will go to the politicians who will pocket it and despise us for being so gullible.

FOREIGN AID program, as supported by this and previous Administrations, is another problem depressing Congress. The Solons are particularly skeptical because of the more than $300 million of aid poured into Laos in past five or six years with every indication that taxpayer funds went into a rat hole. The Laotians don't want to fight, never did want to fight—all of it apparent to the International Cooperative Administration, which continued to pour in millions of dollars for useless highways, radio stations, an Army too big for Laotian support, etc.; nary a dime for projects of real aid to the Laotian economy. Congress senses that more millions—even billions—have been similarly wasted in other areas. In the words of one impressive and influential Capitol Hillian, "It all smells to High Heaven. A downtown bureaucracy regards the dollar as something to spend in support of the bureaucracy, not something to gain U.S. prestige and to bulwark our defense against International Communism."

CAPITOL HILL swings toward the Kennedy thesis that Uncle Sam must "do everything for everybody." Despite oirginal opposition to a $1.25 minimum wage, and Federal aid for economically depressed areas, these measures have passed about as the President asked. It all omens a near-complete legislative victory for the President, even though he has had a set-back on his highway tax proposals, and may have to wait another year for his tax incentives for new plant and equipment investments. Educated guess of the moment is that he will even win out on his controversial Aid-to-Education plans, a $2.3 billion package for the taxpayer.



AS WE GO TO PRESS

Builders Of Small Planes Optimistic. With a 1960 sales value of $200 million in light planes under their belts, builders foresee a near-$300 million figure for this year and look forward to similar annual increases in the present decade. Optimisim stems from two factors—increased private interest in flying for sports and pleasure purposes, and mounting industrial use for transport of top executives and, perhaps more important, doubling—even trebling—territories covered by salesmen who can be quickly trained to navigate the small craft, be less dependent upon commercial air transport and thus reach potential customers away from the regular air line routes. About 375 industrial firms now fly their own light aircraft, but the figure mounts daily.

Unions To Seek Wage Hikes Above Earlier Plans. Labor organizations, aware of increasing public antagonism and ever-mounting uses of automation, were prepared to soft-pedal wage demands in upcoming contract renewals. Passage of the Kennedy $1.25 minimum wage bill has changed the picture somewhat. Argument will be—Congress has upped unskilled pay scale 25% (from $1 to $1.25), skilled labor should get a proportionate increase. Administration, through Labor Secretary Arthur Goldberg, will try to hold wage hikes to proven productivity increases (less than 3% in past year), but some of the unions are ready to risk costly strikes because of apparent economic upturn.

Elsewhere on the labor sector, the unions have decided to intensify their drive for repeal of Sec. 14(b) of the Taft-Hartley Act which recognizes rights of States to bar the union shop through "Right-to-Work" laws. The resolve came with National Labor Relations Board's ruling that unions cannot use the T-H Act in efforts to get an "agency shop" provision in labor-management contracts. Hanging fire in the Supreme Court for more than a year is a labor appeal from the Georgia Supreme Court which bars compulsory union membership if dues are used for political purposes. The High Bench, apparently loath to tackle the problem at this time, can be expected to rule in favor of the unions and against the rights and freedom of the individual, perhaps by or before Summer recess. On the other hand, Congress, because of labor abuses at Cape Canaveral and other missile sites, is in the mood to write some "tough" labor legislation.

Organized Labor Delays Space Flight Full Year. An upcoming report by a Senate investigating subcommittee is almost certain to assert that historic May 5 flight of Comdr. Alan B. Shepard, Jr., could have occured as long as a year ago but for harrassing wildcat strikes at Cape Canaveral and other missile installations. The President has not directly appealed to ranking officers of the AFL-CIO to use their influence to ccurb the abuses, nor is he apt to do so; rather, he is hopeful that a recent press conference comment will have the desired effect.

Coal Men To Intensify Drive Against Oil Imports And Natural Gas. Now producing at annual rate of 400 million tons, the bituminous coal industry sees an annual production

rate of 500 million tons necessary to survival as a "going" industry for defense needs "in an emergency". A well-organized campaign, which began a week or two ago, with an all-expense tour of newsmen to the coal fields of Virginia and West Virginia, will stress the import of residual oils for fuel and the "dumping" of natural gas to industrial consumers as throttling to an industry with three trillion tons of fuel reserves, reserves which will not be available if the coal industry is not given an opportunity to expand—be ready for "the next war". Another angle will be that natural gas reserves are "too low" to permit their wastage in areas of industry that can be as efficiently served by the solid, black fuel.

Small Business Administration Spins Out The Cash. And in rapidly increasing amounts. Responding to pressure from the White House (and the Democratic high command), SBA is redoubling its efforts, even though its bad debt expense ratio is somewhat high—about 2%—SPA-approved loans are running (dollar-wise) 39% above a year ago, while number of loans approved are up around 60%. Disaster loans have moved up around 50%, most of them resulting from wide-spread tornado and hurricane damage. In the meanwhile, small business gets on the Federal "gravy train" with a whopping 1,332 current applications for Federal assistance.

Five-Year Budget Plan Deemed Sensible By Portions Of Congress. The Administration's suggestion that Federal Agencies prepare their future budget requirements on a 5-year basis seems to meet with partial Congressional approval although it will not be submitted to Congress for some weeks yet. The additional four years will be regarded more as planning, rather than as direct request for appropriations beyond the single budget year, as now required by law. Older members of fiscal Congressional Committees see it as a means to permit Congress to plan the future costs of government on a long-range basis instead of the single year as is now the case. The first overall Kennedy budget will go to Congress next January for the fiscal year beginning July 1, 1962, ending June 30, 1963. It is Administration planning to submit an outline 5-year plan before present Session expires, with the complete plan ready for submission next January.

Progress Of New Frontiers Domestic Program Satisfactory To President. With his minimum wage, depressed areas, extended unemployment compensation and aid to dependent children of the unemployed, enacted into law and his educational aid bill (the issue of aid to parochial schools is dead), the President can be described as "content" at this point. It was accented May 9 when Veep Lyndon B. Johnson, the President's "Man Friday" on Capitol Hill, was sent overseas on a "diplomatic" mission. If the President had thought his domestic program in real danger, Johnson would have been kept in Washington.

Unemployment To Continue Decline. Insured unemployment under regular State programs, now dropping at a rate of nearly 300,000 a week, will continue to move downward, according to Labor and Commerce experts here, none of whom attribute the favorable outlook to the present Administration, but to a presently "unaccounted-for upward swing in the national economy; perhaps better labor-management relations, as well as lowering of inventories, increased home construction and upward movements in steel production". None of these can be directly traced to the Administration's program, but primarily to a "natural cycle" that, by all the laws of supply and demand, is due for an upturn. It would have happened, regardless of who occupied the White House, they assert.

Tax Overhaul Now Definitely Postponed Until Next Year. President's recent proposal for special tax credits on expenditures for plant and equipment expansion has thrown House Ways & Means Committee "off balance". The group, for two years working on plans to simplify the now over-complicated internal revenue code, adopt more realistic depreciation allowances, and eliminate or reduce the excise taxes that are definite business deterrents, finds the President's proposal necessitating new study, study that will take more months of delay. Educated guess at the moment is that tax schedules will remain about "as is" until sometime next year, except that the highway tax program will be somewhat altered.

I

FRANCE AT A CRISIS

— As de Gaulle and Algeria Face the Future

By WENDELL L. MOTT

► *This most interesting story presents a unique picture of de Gaulle's unpublicized "ace-in-the-hole" in dealing with the Algerian problems . . . politically — economically. It takes up the underlying strength of the minority position of the European nationals—French-Algerian trade relations and advantages — a realistic approach to the Saharan oil situation — and the ensuing enhancement of France's position in Europe and its significance for the West.*

GENERAL CHARLES DE GAULLE has done it again. He has rescued France from the brink of civil war. And in the process he has channeled the seven year Algerian conflict into a wholly new phase.

But between April 22nd, when the rebellious French generals in Algiers rose against him, and the evening of April 25th, when the uprising was snuffed out, the entire Western alliance hung in the balance.

American concern was underlined by President Kennedy's immediate offer of U.S. assistance. The United Kingdom, after gingerly inching toward membership in the Common Market, began to pull back once more. Even France's partners within the Common Market were jittery over the prospect that a weak and divided France would pull the foundations from under their plans for European unity.

Indeed, the clue to the meaning of the four day revolt in Algiers lies precisely in the excessive nature of the anxiety that gripped France and its allies. The spectacle of tanks rumbling through Parisian streets, airports being barricaded against air attack from Algeria, and General de Gaulle himself crying over the air waves "help me" is a curious contrast to the fizzling anti-climax that actually occurred—the pathetic and bedraggled Algerian gen-

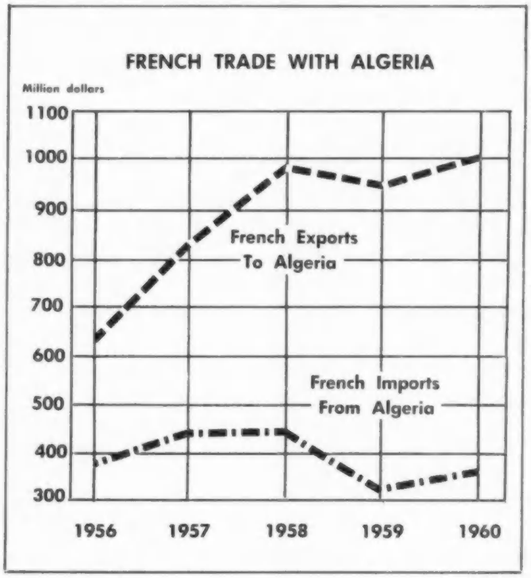
erals, without an army and without popular support, abandoning their mutiny and fleeing in the night.

This over-drawn anxiety plagued every party concerned, including General de Gaulle. How firm was his grip on the armed forces? Would the rebellion spread to metropolitan France or would the population remain loyal? No one was sure. Up to this point, General de Gaulle's real strength was an unknown quantity.

De Gaulle et La Patrie

The attempted *coup's* single most important consequence was to dispel these rankling doubts. As each of the contestants in the power struggle chose up sides, it quickly became apparent that General de Gaulle claimed the broadest and most loyal following. Faced with these odds, the rebellious generals left the field without forcing a fight, and General de Gaulle's Fifth Republic remained intact with the hardy leader's power greater than ever before.

For France itself the extent of the support for General de Gaulle was a surprise. Support even came from the small farmers and businessmen whose fortunes had been straining under General de Gaulle's austerity measures ever since 1958. Ten million wage-earners stopped work for one hour to demonstrate their support for the General. When decisive elements of the Navy and Air Force held firm, along with members of the civilian police force in Algeria, the true isolation of the disgruntled professional soldiers was revealed.



Bitter Tragedy for the Colors

For the famed fighting Foreign Legion it is a bitter and tragic finale. After a series of retreats leading from World War II through the Middle East, Indo-China, Morocco, Tunisia and Suez, these professional soldiers now discover that they must once more haul down their colors. The frustration of these soldiers is shared by the one million European settlers in Algeria. In an independent Algeria they will be outnumbered by ten million Moslems. Considerable arms are still in Algerian closets and the rightist organization in France has not been entirely rooted out by General de Gaulle's purges. However, after the recent failure, it is unlikely that either the Army or the settlers can avert Algerian independence by directly overthrowing the government. A more immediate danger is the fact that extreme fanatics might turn to the desperate alternative of assassination in a final bid to achieve their ends.

For the Moslem Algerians, the silent spectators during the mutiny, General de Gaulle's firm stand, as well as the overwhelming endorsement given him by the French populace, was especially heartening. Twice during the past year attempts to arrange negotiations between the Front de Liberation Nationale (FLN), the rebel organization, and the French authorities have foundered during the preliminary skirmishing for positions. As talks open at the end of this month it is expected that this preliminary sparring will be reduced to a minimum and the substantive issues tackled directly.

What Will Be de Gaulle's Aims In His Talks With the FLN?

● First of all, he is clearly and unequivocably offering the prospect of full independence for Algeria. Once the rebels understand this—that the door is open to complete independence at any time—General de Gaulle hopes that they will voluntarily choose to retain close economic and political ties with France.

● The precedents for this policy have been evident ever since the General came to power in 1958. On September 28th of that year he offered independence to France's African colonies. By the end of 1960 fifteen of these colonies had asked for, and had been granted, full sovereignty. However, a number of these have chosen also to maintain their links with France by joining the French Community.

● A carrot and stick approach has been used. Those seeking to cast off all obligations to France, such as Guinea, found their benefits also terminated. Those joining the French community found that the rigors of coordinating defense and foreign policies and financial institutions were balanced by the advantages of generous French trade preferences and grants of foreign aid and technical assistance.

Why the Difference?

► General de Gaulle would have offered the same alternatives to Algeria had it not been for two obstacles: 1) a deeply divided public opinion within France over the specific issue of Algeria and 2) an Army that was almost beyond the reach of civilian control.

Therefore, General de Gaulle waited more than a year—until September 16, 1959—before he felt himself strong enough and the nation united enough to bear open discussion of Algerian independence.

His efforts to control the Army have taken longer. For months General de Gaulle has patiently and quietly weeded out 3,000 officers of questionable loyalty and has transferred them to NATO commands in Europe. In January 1960, resistance to this tooth-pulling operation touched off an upheaval in Algiers. General de Gaulle quickly toured Algeria to assure the Army that it would stay in Algeria. The Army did remain in Algeria, as he said it would, but a

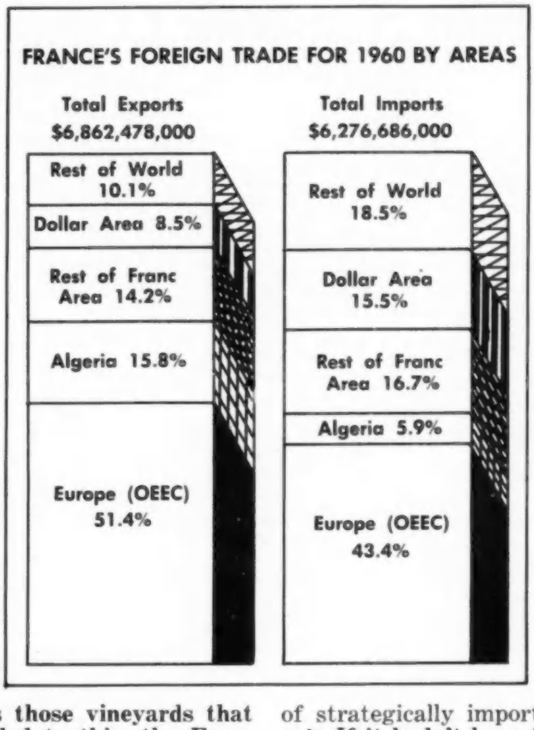
large number of its right-wing leaders did not. Last month's final convulsion by the hard-pressed recalcitrant elements was almost inevitable—perhaps only the timing was a surprise. Its failure revealed how thoroughly General de Gaulle had done his job in the months preceding it.

Settlement in the Offing?

General de Gaulle now has the green light to proceed directly, for the first time, toward an Algerian solution similar to the pattern followed with the other colonies. It is for this reason that firm results are likely to come quickly.

► **First on the agenda for these forthcoming French-FLN talks will be the question of guarantees for the security of the European settlers residing in Algeria. Part of the problem stems from differences in standards of living. Out of the ten million Moslems in Algeria, more than six million have per capita incomes of less than $60 per year. Only a few approach the standards enjoyed by the one million Europeans living there. This is further aggravated by the fact that the Moslem population is expanding at the rate of 3% annually, or triple the European growth.**

► **Europeans feel that in an independent Algeria they would become a submerged minority unable to safeguard their hard-earned business and landed interests against this rising population pressure. Europeans now own about one-third of the arable land, but Moslem demand for subsistence plots could easily lead them, if they were a majority, to divide and redistribute the larger machine-operated farms held by the Europeans as well as those vineyards that now produce for export. Added to this, the Europeans fear, would be the antagonisms and reprisals generated by seven years of bitter war.**



● The FLN approach to this issue is likely to follow its promise of last January to allow Europeans in Algeria special citizenship status if they want it. General de Gaulle's approach, as in his handling of the other French colonies, contains elements of both the carrot and the stick.

De Gaulle's Plans

● **In his April 11th speech General de Gaulle threatened that if the rights of these Europeans are not respected "we shall invite those of our nationals who are there and who truly run too many risks to leave the territory". At the same time, he said, France would feel free to expel the 400,000 Algerians now working in metropolitan France.**

● **If on the other hand, Algeria should decide, in a free referendum, to continue its close ties with France, General de Gaulle promised that "France would undoubtedly be willing to lend her economic, administrative, financial, cultural, military and technical aid to the young Mediterranean State". This is part of his carrot approach. He was referring to the continuation of the Constantine Plan.**

● **This plan, initiated in late 1958, calls for investment by the French Government of one billion dollars per year in Algeria for five years. This approach would aim to relieve the pressure on the hard-pressed European minority, not by withdrawing it, but by finding new opportunities for the Moslems elsewhere in an expanding economy. The plan intends to create 400,000 new jobs. With the aid of irrigation and land reclamation, over 600,000 acres of land will be redistributed to Moslem farmers. Housing is to be built for one million persons and two-thirds of Algerian children of school age are to be enrolled by 1963.**

● **To provide an industrial base for Algeria's agricultural economy, 300 investment projects, involving about $170 million, have been approved. A $26.5 million project built by private French firms will exploit Algeria's rich phosphate reserves and a $167 million steel mill is to go up at Bone.**

● However, the continuation of this Constantine Plan is conditional upon Algeria's desire to continue its bonds with France. If it should withdraw from the French Community much of this aid will be withdrawn.

Division of Sahara's Oil Properties

In addition to the guarantees for the European population, the French and the FLN will be faced with some bare-knuckle bargaining over control of strategically important Saharan oil.

► **If it hadn't been for the discovery of oil in the Sahara in 1956, this desolate region might still be left to the nomads. Instead, however, oil reserves roughly one-third as large as those of the United States have been tapped. By the end of last year $940 million had been poured into oil development and oil output spurted from 28,000 barrels daily in 1959 to 225,000 barrels daily in 1960. Production this year is expected to reach 350,000 to 400,000 barrels per day.**

The bulk of this oil has been relieving France of its dependence on imports of Middle East oil, though about 20% of Saharan production last year went to West Germany and the Netherlands. Saharan production is expected to meet France's entire demand for gasoline and kerosene by 1965. However, Saharan oil, being lighter than average, is not likely to fill French needs for the heavier fuels by that time.

● Algerian oil develop- *(Please turn to page 284)*

PART TWO

DISSECTING FIRST QUARTER EARNINGS REPORTS

...By industry... by company ... looking to end of year

By WARD GATES

TWO important things stand out most clearly in the raft of first quarter statements that have just been released by domestic corporations. The first is the simple fact that earnings were miserably depressed for a wide range of major industries. The second, and perhaps far more vital, is the spirit of optimism that was expressed in both words and figures by a wide variety of companies.

The optimism is significant because in most instances it is based on the tangible evidence of a rising pattern of business toward the end of the quarter, which came too late to help earnings results, but presages better days for the balance of the year. Other evidence also suggests some betterment. New orders for manufacturers have finally turned upward after several months of decline; machine tool orders picked up sharply in the latest reporting month; unemployment has finally tapered off, capital spending is scheduled for a slight upswing; and defense outlays are being boosted above previous estimates. Hence, although it is too early to assume that boom proportion conditions are in the offing, it is apparent that the recession has bottomed out.

If nothing else, therefore, there is enough change in the business picture to rekindle confidence. Our successful launching of a pilot-controlled space flight should add immeasurably to that confidence, both in terms of national prestige and because of the defense business implications that will flow from stepped-up efforts to further our space position. The full implication can only be realized when it is noted that over 9,000 companies played a part in putting Commander Shepard into space.

Costly Recession

The improved outlook for business through the rest of 1961 cannot change the miserable experience of the first quarter. Profit margins slipped drastically, and in most cases earnings fell far more sharply than sales.

A full compilation of earnings shows that only two major industries, the aircraft and petroleum groups, were able to score improvements. All the others showed precipitous declines. Among smaller industries there were exceptions. The movie makers had a good first quarter, financial companies managed to turn in a slight increase, and office equipment manufacturing was ahead of last year (but only because of IBM's exceptional showing).

In addition, tobacco companies showed some improvement, but significantly, the recession held down the profits of the food companies, indicating the difficulty even stable companies have with profit margins when business dips even slightly.

National Biscuit, for example, scored a healthy sales increase to $114 million from $111 million a year ago. Earnings however, failed to keep up, slipping to 88¢ a share from 99¢ a share last year. Actually, comparison with the fourth quarter gives a better picture, since revenues were a much higher $118 million in the final period last year. The sudden drop in the first quarter indicates that with the wide variety of special food products now offered by the major companies they too can feel the impact of recession, since many foods now qualify as luxury items. When revenues drop off, profit margins give ground quickly.

Corn Products illustrates the point further, even though a slight improvement was reported in the first quarter. Earning rose to 82¢ a share from 80¢, but sales were well ahead at $172.6 million against $165.3 million a year ago. In effect, most of the increase in sales went for naught because of the inability of the company to maintain its profit margins.

For the full year, however, Corn Products should show real improvement. As business picks up, margins should expand quickly. Moreover, the company is on the verge of introducing several new foods and expects an important breakthrough in food preservation that could open broad new vistas.

The food producers have fewer problems than other industries because of the stability of demand. Yet it is significant that they too had profit margin troubles.

The **drug industry needs** a steadily rising level of sales and at least constant profit margins to offset enormous research and development expenditures. When revenues fail to grow, research eats quickly into profits and reduces reported earnings.

Upjohn Co., is a case in point. The company is a well managed producer of ethical and proprietary drugs. The long term record has been good, but in the first quarter revenues fell slightly behind a year ago, and well behind the later quarters of 1960. As a result earnings also dropped behind the first quarter of a year ago, falling to 39¢ a share from 42¢. The drop appears small, and is a tribute to basically efficient operations, but still is greater than the fall in sales.

Merck also had a small decline in sales from the initial period of 1960, but the impact of research costs and greater selling efforts punished earnings more severely. Net declined to 57¢ a share from 69¢ last year. A further indication of the effect of increased selling expenses is the fact that the 57¢ compares to 55¢ in the fourth quarter of 1960 when sales were $4 million less than those reported in the first quarter of 1961.

When sales advance, however and research costs can be recouped, earnings also improve. **Smith Kline & French** moved ahead in the first quarter, scoring higher sales than in any period of 1960. Revenues came to $37.7 million compared with $35.7 million last year, but earnings marched ahead to 46¢ a share from 40¢.

Colgate-Palmolive, with a heavier concentration in proprietary items, had a similar experience. Sales moved ahead by about $5 million and earnings scored a good gain to 60¢ a share from 50¢ in the opening period of 1960. Colgate's betterment also stems from a rigid cost control program that is now bearing fruit. Further benefits should flow later in the year, since the company is now so intent on paring costs that entire plants are being shut down if they do not meet efficiency requirements.

Heavy Industry Hard Hit

As in all recessions, the hardest times were suffered by the basic industries and those that deal essentially in big-ticket items. Steel companies, especially, were adversely affected as most of their major customers cut their use of steel drastically.

Bethlehem Steel reported its lowest non-strike earnings since the third quarter of 1945. Sales fell sharply to $433 million from $656 million a year ago, but the earnings drop was even greater, coming to 14¢ a share against $1.10 last year. Various reasons account for the poor showing, including slowdowns and other difficulties in the company's shipbuilding operations. But probably the main reason was simply that orders were so spotty all through the first quarter that Bethlehem never could plan operations in many of its plants for an entire week: Orders on hand would call for one level of operation, while orders coming in on a hand-to-mouth basis would fill out the week's schedule, but without any semblance of true efficiency.

Fortunately the order position is now much better, and is large enough to allow for carefully planned production. The results could do wonders for profit margins in the next few quarters.

Jones & Laughlin and **Republic Steel** went through similar difficulties, and of course **U.S. Steel** (discussed elsewhere in this issue) also sustained a precipitous decline in earnings.

The steel companies had plenty of company in their misery, however. Among their principal customers, the automobile manufacturers stumbled the worst.

General Motors' decline is not hard to trace. The company just didn't sell enough cars, and those it did sell best were the lower profit margin compacts. However, standard Chevrolets stood up well, but not well enough. Sales dropped by a billion dollars in the first quarter, to a level not far above the third quarter of 1960—a quarter which is always slow because of model changeovers. Earnings plummeted to 65¢ a share from $1.14, indicating that GM will not surpass last year's earnings no matter how good the balance of the year is.

Other steel users also fell down on the job, but some of them don't have the generally brighter prospects that face both the steels and the motors. Railway equipment companies, for example, are in the throes of a new recession. Backlogs are being eaten away drastically, and new orders are slow in coming.

Pullman is in perhaps the best shape because of its diversification, but still, the rest of the year will probably follow the first quarter pattern. Sales fell to $91 million from $110 million, and earnings drop-

Quarterly Comparison of Sales and Earnings

	1061		1960							
	1st Quarter		4th Quarter		3rd Quarter		2nd Quarter		1st Quarter	
	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share
Air Reduction	$ 48.4	$ .71	$ 47.0	$ .72	$ 50.5	$ .95	$ 51.6	$ .97	$ 52.3	$1.04
Allis Chalmers	119.6	.15	120.6	.16	126.7	.13	156.2	.55	127.3	.28
American Brake Shoes	37.6	.56	41.5	1.27	36.9	.28	46.1	1.29	39.9	.64
American Can	230.1	.37	247.7	.27	320.9	.78	271.1	.66	222.8	.35
American Home Prod.	N.A.	1.64	100.6	1.48	113.9	1.65	103.2	1.49	128.7	1.66
American Smelt. & Refining	N.A.	.71	121.4	.66	108.9	.81	120.2	1.03	125.0	1.22
American Tobacco	299.0	1.11	309.2	1.19	322.6	1.25	308.4	1.15	275.0	.98
American Viscose	50.3	.39	50.0	.55	48.4	.11	53.3	.36	54.8	.41
Armstrong Cork	70.4	.71	70.8	.56	75.5	.80	75.2	.96	69.9	.75
Atlas Powder	16.8	.92	17.0	.46	18.3	1.07	18.9	1.53	16.5	.87
Balcock & Wilcox	76.0	.76	85.6	.73	70.4	.66	76.5	.69	78.4	.81
Beckman Instruments	17.0	.67	16.3	.61	15.0	.54	14.8	.49	13.9	.51
Bethlehem Steel	433.4	.14	450.2	.56	502.9	.24	569.0	.62	655.8	1.10
Brunswick Corp.	52.1	.17	81.8	.59	150.0	1.15	77.1	.39	52.6	.15
Chrysler	431.5	d2.45	621.4	.77	634.1	.15	825.7	1.45	925.8	1.25
Cluett Peabody	28.6	1.30	34.8	1.84	29.5	1.00	23.9	.75	26.2	1.20
Colgate-Palmolive	149.5	.60	120.4	.64	155.5	.73	151.7	.66	144.6	.50
Columbian Carbon	19.9	1.09	19.6	.75	19.5	.82	21.0	1.19	20.2	1.31
Container Corp. of Amer.	76.8	.38	81.7	.26	85.0	.39	81.6	.49	78.3	.43
Continental Can	242.0	.39	252.5	.32	334.2	.84	289.3	.75	240.9	.30
Corn Products	172.2	.82	172.0	.96	177.6	.85	176.1	.88	165.3	.80
Eastman Kodak	193.8[1]	.56[1]	297.8[2]	1.03	229.7[1]	.84[1]	221.8[1]	.80[1]	195.4[1]	.62[1]
Flintkote Co.	46.5	.01	59.9	.42	73.0	.78	65.9	.72	49.8	.10
General Amer. Transport.	N.A.	.77	66.1	.77	60.0	.82	62.3	.94	62.3	.92
General Motors	2,724.0	.65	3,426.3	.90	2,201.0	.30	3,450.8	1.01	3,658.0	1.14
General Precision Equip.	62.9	.87	67.8	1.18	55.8	.71	65.0	.71	57.0	.77
Georgia-Pacific Corp.	48.4	.52	57.5	.29	62.0	.61	56.2	.87	50.8	.63
Kennecott Copper	117.6	1.46	115.5	1.32	131.3	1.82	132.2	2.21	117.3	1.65
Liggett & Myers Tobacco	120.2	1.27	135.1	1.76	141.4	1.83	139.0	1.79	127.4	1.58
Lily-Tulip Corp.	21.9	.43	19.2	.34	24.5	.53	25.8	.67	21.1	.46
Lorillard (P.)	115.0	.88	124.3	1.16	122.4	1.03	126.9	1.04	113.6	.84
Merck & Co.	54.9	.57	51.0	.55	55.7	.65	55.6	.68	55.7	.69
Motorola	59.7	.20	78.3	.71	77.2	.81	73.2	.86	71.0	.75
National Biscuit	114.5	.88	118.1	1.15	110.6	.95	111.3	1.01	111.7	.99
National Cash Reg.	112.0	.43	142.0	.99	110.0	.58	108.3	.52	97.4	.47
Owens-Corning Fiberglas	48.0	.31	55.9	.46	55.5	.55	55.5	.58	51.1	.60
Philip Morris	123.8	1.21	125.9	1.35	128.7	1.48	130.0	1.47	119.7	1.15
Phillips Petroleum	304.1	.80	297.8	.99	299.2	.79	301.6	.76	301.4	.75
Pullman	90.7	.46	98.3	.49	96.9	.63	115.2	.78	110.8	.72
Radio Corp. of Amer.	361.7	.68	425.2	.47	354.0	.32	345.8	.30	361.2	.85
Reynolds Metals	108.9	.25	108.7	.32	113.9	.28	109.5	.36	106.6	.30
Reynolds (R. J.) Tobacco	356.3	1.33	366.1	1.45	372.9	1.34	357.4	1.27	321.7	1.15
Ruberoid Co.	21.7	.06	27.0	.54	36.1	.94	32.1	.72	24.7	.25
St. Regis Paper	131.4	.37	139.3	.33	148.8	.38	126.0	.61	129.9	.59
Shell Oil	N.A.	.57	473.6	.67	456.0	.58	443.9	.57	454.2	.57
Simmons Co.	27.8	.16	26.3	.73	33.1	.80	33.7	.91	32.8	.91
Smith Kline & French Labor.	37.7	.46	35.3	.38	36.2	.43	37.1	.43	35.7	.40
Standard Brands	150.3	.69	129.8	.72	129.6	.62	131.9	.59	135.2	.64
Standard Oil of California	459.1	1.04	488.0	1.06	515.6	1.12	468.0	1.07	450.7	.96
Standard Oil of New Jersey	2,286.0	.89	2,103.8	.87	2,275.0	.86	2,105.0	.67	2,203.0	.79
Texaco	N.A.	1.75	793.6	1.73	738.1	1.68	1,448.5[3]	1.32	—	1.61
Thompson-Ramo Wooldridge	96.7	.45	106.4	1.03	94.8	.55	107.5	.82	116.6	.73
Union Carbide	364.3	1.12	390.6	1.35	385.8	1.20	376.3	1.30	395.3	1.40
U. S. Gypsum	55.9	.81	64.4	1.11	76.0	1.31	72.0	1.28	61.0	1.00
Upjohn	39.4	.39	40.6	.38	42.2	.49	36.8	.33	39.6	.42
Westinghouse Air Brake	38.9	.39	42.7	.39	45.3	.47	50.9	.47	46.7	.48
Zenith Radio	63.9	1.16	70.1	2.88	65.6	1.10	59.1	.49	68.1	1.30

N.A.—Not available.
d—Deficit.
[1]—12 weeks.
[2]—16 weeks.
[3]—6 months.

ped to 46¢ from 72¢ in last year's first quarter. Pullman is a highly efficient producer, but internal efficiencies cannot produce business that is not there.

Westinghouse Air Brake, another diversified producer of railway equipment is in the same boat. Revenues fell below all 1960 quarters in this year's opener, and earnings dropped to 39¢ a share from 48¢ last year. At that, a better billing record and product mix allowed for greater efficiency, so that earnings remained equal to the fourth quarter results despite smaller sales.

The recession, of course, cut railway spending to the bone, and there are no signs of a pickup. However, with Washington supposedly sympathetic to the plight of the roads, especially the commuter lines, help may be forthcoming soon that will aid the equipment makers. The railroad slowdown, incidentally, was so widespread that even normally immune companies were affected.

General American Transportation has a superb record of stable profitability because of rental contracts for the use of its huge fleet of railroad cars. The recession hit so hard however, that profit margins from rentals were not enough to offset the declines in the company's manufacturing operations. As a result earnings toppled to 77¢ from 92¢ a share a year earlier.

Above Par Earnings

Despite the generally poor first quarter, the pattern discerned in our opening report in the previous issue still holds. With most industries reporting setbacks, the oil companies showed improvement.

Standard Oil of New Jersey barely topped last year's sales figures of $2.2 billion, but net income rose to 89¢ a share from 79¢ over the same period of 1960. The oil companies generally benefited from the brutal winter that beset most of country. The demand for fuel oil was abnormally high in many sections, allowing for price increases that offset the weakening of gasoline prices. In addition, the international companies, such as Jersey, benefited from the boom abroad and the growing demand for oil.

Jersey, like the other domestic companies slowed its exploration activities a bit, and this too contributed to increased earnings. Higher capital outlays were also made during the opening period, but these do not affect reported earnings. It is significant, however, that the company is ploughing more and more money into product capacity rather than the search for oil, keeping in mind the political uncertainties around the world.

Texaco did not report its revenues, so there are no indications of what happened to profit margins. However, the earnings picture indicates that this highly efficient company once again outscored the industry. Per share net rose to $1.75 from $1.61 last year, and also topped all other quarters of 1960.

The better prices available for refined products also helped **Atlantic Refining.** The company's highly efficient refineries are now operating at full steam bolstering profit margins. Sale rose less than $3 million, but profit margins widened to permit a sharp rise in net to $1.60 from only 93¢ a year ago. (See story in this issue.)

In addition to the oils, tobacco companies performed well. **Reynolds,** mentioned in the opening section of this report, (Part I) once again increased both its sales and earnings for the same reasons as before. Aggressive advertising and merchandising coupled with exceptional management and superb fiscal policies seem to do the trick year after year.

Liggett & Myers had a little less luck. Sales fell as luxury brands slipped despite huge advertising outlays. Revenues dropped $7 million and earnings fell about 16% to $1.27 from $1.58 last year.

Individual Standouts

A few individual companies outperformed the others, often for special reasons. **Continental Can** for example, has been in the doldrums for several years as competitive packaging materials made life unpleasant for the company. The counter-attack has begun, however, with new materials and rigid cost controls. Cost factors explain most of Continental's 30% increase to 39¢ a share from 30¢ last year. However, a real pick up in business began in March and was early enough to be felt in first quarter results. The outlook for the balance of the year, therefore, is encouraging.

Babcock & Wilcox, despite its close tie to heavy industry, scored a relatively minor decline in earnings. Excellent defense contracts, good business abroad, a careful attention to costs, explain the better than average earnings of 76¢ compared to 81¢ a year ago.

Cluett Peabody, a maker of men's shirts continues to show improvement largely because of the impact of its Clupak process for stretchable papers, and the royalty revenues from its Sanforizing process. Earnings rose to $1.30 from $1.20 per share, a good showing for the normally slow first quarter.

Electronics Down

Electrical and electronics companies mostly stumbled in the first quarter despite the "growth" tag they carry. **Motorola** was hit really hard as a result of the decline in television and radio set sales. Sales declined only 16%, but high operating costs led to a 75% drop in earnings to 20¢ a share from 75¢ a year ago.

Zenith, as usual fared better, but its earnings also declined in the wake of the general sales decline that struck the industry. The reported earnings of $1.16 per share, however, while below last year's $1.30 nevertheless represent a substantial improvement over the depressed second and third quarters of last year. The company, therefore, is probably once again on the upswing, and should get a new filip from production of color television.

Radio Corporation of America also slipped in the first quarter, continuing its record of highly erratic earnings. Sales were above last year's first quarter, but once again the company failed to keep profit margins in line and earnings dropped to 68¢ from 85¢ a year ago.

Chemicals Down

The chemicals were hit almost as hard as any other industry. In fact, the more basic the industry, it seems, the worse the results. **Olin Mathieson** suffered a two-pronged blow. Chemical operations were depressed in line with other chemical companies, and in addition its newly *(Please turn to page 280)*

DEPARTMENT STORES... Show Basic Strength Now...

With Varying Degrees of Growth Ahead for individual companies

By EDWIN CAREY

THE rise in industrial stock prices since October has resulted in a renewed search for fundamental values; they are hard to find. It is of significance that the increase in the prices of most industrials is entirely anticipatory of the future. If the next twelve months should prove disappointing earnings-wise, there could be a major downward correction, and there is increasing evidence that this possibility is just beginning to worry investors. Their search now for fundamental values reflects an increasing desire for stocks with defensive characteristics.

Department stores tend to fill this order in varying degrees. In 1960, a year in which the earnings of many industrial stocks showed marked declines, department stores were also off—but only moderately—due more to markdowns rather than significant sales declines. In addition to their relative stability, this stock group has not been pushed up to the extreme price-earnings ratios of the so-called glamour stocks. As in other industries, there is a great variation in values between companies.

For example, consider the growth of Federated Department Stores during the 1950's, with a sales increase of 125% and in earnings per share of 75%, or Associated Dry Goods with sales up 105% and a 60% earnings per share gain. In the mail order field, Sears, Roebuck began with a large base, but still increased sales 92% and earnings per share 70% during the period.

Of even more importance is the fact that once an earnings gain is achieved in this field, it is generally sustained. For example, in the case of Gimbels, earnings of about $2.25 were at a sustainable level in 1953 and in 1954, despite a rather sharp recession in 1954. By 1958, another recession year, net per share was at $3.85, and appeared sustainable at that level. Earnings are now in the $4.50-$4.75 area, which appears to be another base for further progress. When compared with the unpredictable character of many industrials, especially after the recent market advance, stocks such as these, which incidently offer a good dividend yield, may become more popular in the months ahead.

Minimum Wage Bill Merely Recognizes Existing Scales

One negative factor is the new Minimum Wage Bill, increasing the minimum wage from $1.00 to $1.15 per hour, effective in September, and to $1.25 per hour two years later. A check with the managements of some of the leading department stores reveals that the bill will not have any dramatic effect on earnings. In most cases, stores are located in various parts of the country where the going wage for unskilled help is already above the new mini-

Statistics on 15 Leading Department Stores

	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. 1960	Dividend Per Share 1960	Dividend Per Share Indicated 1961	Recent Price	Div.	Price Range 1960-61	Company Rating
Allied Stores	$5.17	$3.71	N.A.	$3.00	$3.00	55	5.4%	59½-41½	B4
Arnold Constable	.20[1]	.26[1]	1.74[1]	.50[3]	.50[3]	16	3.1	20¼-12½	B2
Associated Dry Goods	4.78[1]	4.60[1]	6.67[1]	2.50	2.50	77	3.2	82 -56¼	A2
Best & Co.	2.88[1]	2.47[1]	3.41[1]	2.00	2.00	38	5.2	40⅜-30¾	B2
City Stores	1.03[1]	.68[1]	2.02[1]	1.00	.60	13	4.6	18 -12	B4
Federated Dep't. Stores	1.98[1]	1.92[1]	2.49[1]	1.02	1.10	44	2.5	45⅛-30⅜	A2
Gimbel Bros.	4.82[1]	4.55[1]	7.67[1]	2.20	2.20	68	3.2	69¾-50½	A2
Interstate Dep't. Stores	4.11	N. A.	N. A.	1.20[3]	1.20[3]	89	1.3	98¾-33⅞	B1
Macy (R. H.) & Co.	3.76[2]	4.07[2]	6.87[2]	2.00	2.00	52	3.8	55 -37¾	A2
Marshall Field & Co.	4.51[1]	4.41[1]	6.53[1]	2.50	2.50	70	3.5	73 -44¾	A2
May Dep't Stores	3.28	3.11	4.72	2.20	2.20	51	4.3	53⅛-40¼	A2
Mercantile Stores	3.38[1]	3.16[1]	4.89[1]	1.65	1.65	39	4.2	39⅞-30⅜	B2
Montgomery Ward & Co.	2.28[1]	1.07[1]	1.82[1]	1.75	1.00	30	3.3	53⅜-25½	B2
Penney (J. C.) Co.	2.09[1]	1.82[1]	2.33[1]	1.50	1.50	40	3.7	45 -37⅛	A2
Sears, Roebuck & Co.	2.64[1]	2.55[1]	3.01	1.45	1.45	60	2.4	60⅝-44½	A2

[1]—Years ended 1/31/1960 & 1961.
[2]—Year ended July 31.
[3]—Plus stock.

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

mum. **But, in the South and in rural areas the increased labor cost would have a more important effect on profit margins.**

Recent Trends Reviewed

Recession Was A Test Period: Department store sales gained 6% in 1959 with nearly all of the increase coming from branch operations. It was a good year just as it was for most business. During the first half of 1960, department stores were chalking up further gains, and by the end of May, 1960 sales were running 3% ahead of 1959. Then sales leveled off as the well-publicized recession began, and for all of 1960 the gain over 1959 was limited to 1%. Nevertheless this might be considered a fairly good performance as compared to many industrials, whose sales declined sharply. However profits were off somewhat due to frequent markdowns as stores cut prices to move merchandise. Thus 1960 was an acid test for many department stores. As will be noted below in a review of some of the leading stores, some came through this test better than others; generally it was a year of leveling off, with earnings only moderately lower.

► **Over the first four and one half months of this year** department store sales ran about even with a year ago. While, on the surface, this might be considered a good performance in the light of the present recession compared with the prosperity of a year ago, it should be noted that an early Easter helped sales this year considerably.

The table in the next column shows the trend in sales according to weekly figures compiled by the Federal Reserve Board. It would appear that Kansas City has been a relative strong point for department stores, and until this year so has New York City. Such stores as **Best & Co., Associated Dry Goods,** and to a lesser extent **Gimbel's** and **Macy's,** have more than a casual interest in the trend of New York department store sales. Macy's has stores in other strong points including Kansas City and San Francisco.

	Jan. 1 to April 15, 1961 compared with same period in 1960	*1960 vs. 1959*	*1959 vs. 1958*
Boston	3%	2%	4%
New York	0	4	4
Philadelphia	—3	0	4
Cleveland	—2	1	7
Richmond	—1	—1	3
Atlanta	0	1	7
Chicago	—2	1	8
St. Louis	—1	—1	6
Minneapolis	0	3	5
Kansas City	5	1	6
Dallas	—1	—3	7
San Francisco	0	0	9
U. S. Total	0%	1%	6%

Credit Sales Grow: Sears, Roebuck and **Montgomery Ward** recently took the retailing world by surprise with the announcement that they will revise credit terms to eliminate all down payments. Probably **Spiegel** and **Aldens** will follow suit to remain competitive. A number of conventional department stores may be obliged to do the same. Credit sales of course are a good weapon against discount houses which generally operate on cash and carry, eliminating services to keep prices low.

Chairman Barr of Montgomery Ward maintains that the elimination of a down payment "will undoubtedly act as a stimulant to sales". In 1960 credit sales at Sears, Roebuck accounted for 53.4% of total sales, about the same as in 1959, while Montgomery Ward increased its credit sales during 1960 to 39.7% from 37.2%.

Of the other two mail order stores, which are considerably smaller, **Aldens** derives 52% of sales from credit and **Spiegel,** which has always emphasized credit, puts some 80% of total sales on the cuff. Most conventional department stores now have a revolving credit plan as well as a monthly charge system. A company such as **Associated Dry Goods,**

which derives a substantial portion of its total sales from a store such as **Lord & Taylor,** where better quality merchandise is emphasized, obtains perhaps 10% of its sales from credit, excluding ordinary charge systems. **Allied Stores** on the other hand, emphasizing popular lines and carrying more hard goods than Associated reportedly derives 57% of its sales from credit.

► **Stores Step Up Foreign Buying Operations:** Montgomery Ward recently began a program to expand imports of merchandise obtained from its foreign buying offices. New offices were opened in Florence, Vienna, Copenhagen, London, and Tokyo, while the office in Frankfurt was expanded. In many cases this not only helps the company to obtain a unique foreign-produced consumer item, but to purchase more cheaply than is possible in the U. S. Many other companies have taken this same step. In early 1961, Associated Dry Goods set up a foreign subsidiary to facilitate foreign buying, and Macy's as well as Sears, Roebuck have recently expanded their foreign buying offices.

► **Seasonality of Department Store Sales:** Normally **57% of total sales are made in the second half of the year and produces 65% to 70% of the earnings. This reflects the leverage in department store operations; once overhead costs are covered business becomes most rewarding. This factor also makes it difficult early in the year to estimate final earnings. The two months of November and December alone account for some 26% of annual sales. Thus, given a pick up in business generally in the latter half of 1961, as is widely expected, earnings could take a most pleasing turn. In addition, many department stores can be held for a better than average dividend yield.**

The Individual Stores—and Their Management

The following reviews the progress of the leading department stores, spotlighting some of the most important management characteristics in each situation, and suggesting in a few instances that some change in policy may have an important bearing on the future. We continue to regard Associated Dry Goods, Federated Department Stores, Gimbel's, Macy's, J. C. Penny, and Sears, Roebuck as the more favorably situated stores for long term investment.

Allied Stores: (55) Six of the company's larger downtown stores continue to lose money, and management has attempted without success first to improve operations and second to sell the stores. Long term leases without escape clauses are apparently a major problem, for no one wants to tie themselves to a heavy fixed rental charge—especially if the property is a money loser to start with. However management says that it will now make some major moves with respect to the unprofitable stores. In the past, management has applied some of its efforts to the declining downtown situations, and, assuming it can dispose of these stores, will now in all likelihood divert more funds and attention to expanding suburban operations. Some 81% of sales are derived from downtown stores.

The stock may be regarded as a speculation on management's renewed determination to eliminate unprofitable stores, which in itself could add $1.50 to earnings per share, and to a modernization program for existing stores. The $3.00 dividend provides a 5.4% yield. Last year, a year of acid test for retailing as mentioned above, earnings showed one of the more serious declines among major department stores, approximating $3.75 vs. $5.17 the previous year. Close to 75% of earnings are made in the fourth quarter alone, so fortunes depend to a great extent on a good Christmas. Heavy rental expenses tend to keep the break-even point on the high side, so that a large volume is needed for profitable operation.

Associated Dry Goods: (77) This ably managed company shows a long term growth trend in both sales and earnings per share. While management has found success in its merchandising policies with emphasis on apparel of quality and fashion in its downtown stores typified by Lord & Taylor, it has also been willing to branch out into the suburbs. Nearly 35% of total sales are now from branches. Soon new branches in the Baltimore and Los Angeles areas will be opened, and the company has reached an agrement to acquire H. & S. Pogue Co. in Cincinnati with two branches for some $25 million. So far Associated has been able to put new branches on a profitable basis within a year after opening; the sizable Eastchester Branch required a mere five months. Earnings per share over the last three years have averaged $4.40 vs. $3.20 in 1953-55 and the growth trend has been smoothly upward, although earnings may have reached a plateau for the time being at about $4.70. The dividend of $2.50 provides a safe yield of 3.3%, and the stock is considered one of quality in the group. On June 19 the company will redeem 50,000 shares of its 144,566 shares of preferred stock at $110.

Federated Department Stores: (44) While the year just ended was one of leveling off, with net per share amounting to $1.92 vs. $1.98 a year ago, it can be said with some degree of confidence that earnings will continue to grow as they have in the past. This is reflected somewhat in the higher price of the stock relative to other department stores.

In addition to the prospect of a lift in the economy and possibly a generally improving trend for retailing, the company will benefit soon from projects completed in 1960. These include a large branch store (some 157,000 sq. ft.) in the Tri-County Shopping Center near Cincinnati; purchase of Levy's in Tucson for cash avoiding dilution of earnings per share; a self-service check-out department store in a Milwaukee shopping center; and expansion of well-established Burdines in Fort Lauderdale, Fla.

In addition, a 1,200 car parking garage was completed for Abraham & Strauss. Projects for 1961 include a 126,000 sq. ft. branch for Filenes, this being the ninth branch in the Boston area, a Fedway branch in Albuquerque, one for Goldsmith's in Memphis, and one for Foley's in the new Houston shopping center.

It is significant that most of these branch stores are substantial in size carrying a full line of merchandise. The company also plans to continue to improve the position of downtown stores. The construction of a parking garage for downtown Columbus, Ohio should be of material benefit. The stock is one of quality with further growth potential and probably involves little downside risk at the present time. Although the dividend provides a modest yield of 2.5%, the payment has been increased five times in the last six years.

Gimbel Bros.: (68) The growth in Gimbel's is a

Comprehensive Statistics Comparing the Position of Leading Department Stores *

Figures are in million dollars except where otherwise stated.	Associated Dry Goods	Federated Dep't. Stores	Gimbel Bros.	R. H. Macy & Co.	May Dep't. Stores	Montgomery Ward & Co.	(J. C.) Penny & Co.	
CAPITALIZATION:								
Long Term Debt (Stated Value)	$ 31.0	$ 20.6	$ 55.2	$ 60.3	$ 61.4	—	—	$350.0
Preferred Stocks (Stated Value)	$ 14.5	—	$ 7.7	$ 25.9	$ 34.9	$ 20.1[1]	—	—
No. of Common Shares (000)	1,762	17,204	1,954	1,878	6,886	12,805	24,695	75,386
Capitalization	$ 47.2	$ 42.1	$ 72.8	$114.4	$130.5	$231.3	$ 34.1	$576.1
Total Surplus	$ 79.8	$234.2	$ 89.6	$ 59.8	$201.4	$408.8	$274.2	$1,247.6
INCOME ACCOUNT: Fiscal Year Ended	1/31/61	1/31/61	1/31/61	7/31/60	1/31/61	1/31/61	1/31/61	1/31/61
Net Sales	$285.2	$785.3	$407.0	$508.7	$684.8	$1,249.0	$1,469.0	$4,134.3
Deprec., Depletion, Amort., etc.	$ 2.9	$ 9.9	$ 5.7	$ 4.2	$ 9.8	$ 8.3	$ 12.5	$ 35.2
Income Taxes	$ 8.5	$ 35.4	$ 10.2	$ 9.4	$ 22.5	$ 14.3	$ 49.1	$177.9
Interest Charges, etc.	$ 1.0	$ 3.3	$ 2.5	$ 6.6	$ 2.7	—	—	$ 52.8[2]
Balance for Common	$ 8.1	$ 32.9	$ 8.8	$ 7.6	$ 21.4	$ 15.0	$ 45.0	$192.1
Operating Margin	6.2%	9.1%	5.4%	4.6%	6.5%	2.1%	6.3%	10.5%
Net Profit Margin	3.1%	4.2%	2.2%	1.7%	3.3%	1.2%	3.0%	4.6%
Percent Earned on Invested Capital	9.2%	12.9%	8.6%	7.6%	17.2%	2.3%	14.6%	13.0%
Earned Per Common Share	$ 4.60	$ 1.92	$ 4.55	$ 4.07	$ 3.11	$ 1.07	$ 1.82	$ 2.55
Cash Earnings Per Share	$ 6.67	$ 2.49	$ 7.67	$ 6.87	$ 4.71	$ 1.82	$ 2.33	$ 3.01
BALANCE SHEET: Year Ended	1/31/61	1/31/61	1/31/61	1/31/61	1/31/61	1/31/61	1/31/61	1/31/61
Cash and Marketable Securities	$ 17.8	$ 30.2	$ 13.5	$ 19.0	$ 21.1	$ 56.7	$104.7	$920.0
Inventories, Net	$ 47.7	$ 83.8	$ 51.5	$ 60.1	$ 82.6	$266.7	$203.8	$603.1
Receivables, Net	$ 50.3	$128.8	$ 74.8	$ 38.5	$149.9	$241.8	$ 54.7	$ 88.5
Current Assets	$118.7	$246.0	$143.3	$122.6	$260.1	$590.7	$363.2	$1,642.8
Current Liabilities	$ 26.5	$ 81.1	$ 53.7	$ 47.8	$ 88.9	$ 99.8	$132.4	$380.0
Working Capital	$ 92.2	$164.9	$ 89.6	$ 74.8	$171.2	$490.9	$230.8	$1,262.8
Current Ratio (C. A. to C. L.)	4.4	3.0	2.6	2.5	2.9	5.9	2.7	4.3
Fixed Assets, Net	$ 26.6	$102.6	$ 67.0	$ 82.9	$127.7	$102.2	$ 81.2	$345.2
Total Assets	$159.0	$365.4	$219.1	$224.3	$419.9	$740.0	$455.1	$2,203.8
Cash Assets Per Common Share	$ 10.13	$ 1.75	$ 6.93	$ 10.13	$ 3.06	$ 4.43	$ 4.24	$ 12.21
Inventories as Percent of Sales	16.7%	10.6%	12.6%	11.7%	12.0%	21.3%	13.9%	14.5%
Inventories as % of Current Assets	40.2%	34.0%	36.0%	49.0%	31.7%	45.2%	56.1%	36.6%

*—Statistics on other leading companies have not been included because balance sheet figures have not been released yet.

1—201,554 class "A" shares.
2—Includes dist. on accts. sold.

direct reflection of its willingness to set up branch operations that are substantial in size. The proof of the pudding is not just in sales growth but in actual earnings per share. Looking back a few years Gimbel's in 1952 earned $2.14 per share, $2.35 in 1953, $2.34 in 1954. By 1958—a recession year—net per share was up to $3.85, $4.82 in 1959, leveled off to $4.55 in 1960. Later in 1961 the company should begin to benefit from the 250,000 sq. ft. branch opened in the Garden State Plaza, Paramus, N. J. (It might be noted, however, that heavy expansion by department stores in this area, including the large Macy branch, may have over-saturated the area. It could require a few years for this store to be a large money earner.)

Another large branch being built in the Roosevelt Field Shopping Center, Long Island is slated for opening early next year, as well as the 225,000 sq. ft. store in Philadelphia, and one nearly as large in Pittsburgh. Currently 26.7% of total sales are from suburban stores, compared with 24.5% last year. The Stock, yielding 3.3%, is one of the more highly regarded issues in the group.

Interstate Department Stores: (89) Having made little progress during the '50's with a conventional department store operation, Interstate broke ranks in 1959 to join the enemy, acquiring White Front Stores, a large West Coast discount operation and another, New England Topps, was acquired in Sept. 1960. Currently, conventional department stores account for 60% of Interstate's total sales, and further expansion of discount stores should soon bring the ratio to 40%. So far the company has done well with this venture, and net per share for the year ended January 31, 1961 may have been close to $4.25 vs. $4.11 a year ago. Management looks for a considerably wider gain this year. The stock, soon to be split 3 for 1, yielding 1.3% and having nearly tripled in price from its 1960 low, appears to have discounted much of the expected progress, but continues to have speculative appeal.

R. H. Macy: (51) Like Gimbel's, Macy's has opened a number of large branches in recent years which have helped earnings. The 270,000 sq. ft. branch in the Menlo Park Shopping Center in New Jersey, another in Monmouth, N. J., and a new branch just opened in Kansas City should benefit earnings more next year than this year. Other large suburban stores are planned for Bay Shore and Huntington, Long Island; Topeka, Kansas; Toledo, Ohio; and in the California cities of Palo Alto, Sacramento, and Stockton. With earnings at around $4.00 the stock yields 3.8% on the $2.00 dividend, and is a worthwhile holding for growth as well as income.

Montgomery Ward (30) An appraisal of the problems facing Mont- *(Please turn to page 283)*

When Will AIRLINES Emerge from Profitless Prosperity?

By JOHN MARCHESI

- Is the answer higher rates — mergers — what of a boost in seat-miles?
- Which companies are in the best position — which still remain rather speculative?

ANY observant investor who has been following the fortunes of the air transport industry over a period of years will readily recognize two major themes which run through its reports with great regularity: — (1) the assertion that policies of the Civil Aeronautics Board are more likely to destroy the air transport industry than to build it up as intended by Congress, and (2) as an inevitable consequence the industry is engaged in a desperate struggle merely to make ends meet.

In view of the exceedingly strong growth trend in air travel during the post-war era, the inability to produce net income worth mentioning is really a puzzling anomaly. Nevertheless, the airline industry does stand as the prime example of "profitless prosperity".

Microscopic Profit Margin

It is hard to believe, in fact, that the airline picture could get any blacker than it was in 1960. Last year, the domestic carriers again established a new peak in traffic and revenues, the latter amounting to $1.9 billion, or 8% above the 1959 total. But of this impressive sum, the 12 domestic trunk-lines could bring but a paltry $1.2 million down to net income. **This means the industry had profit margins of only a microscopic 0.06% last year, compared with about 5% for the average manufacturing company.**

Poor as this comparison may be, the real significance of the airlines' 1960 results is best appreciated when it is related to their own 1949 showing. **In the earlier year, the carriers earned ten times**

Statistical Data on Leading Airline Companies

	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn Per Share 1960	1st Quarter Earnings Per Share 1960	1st Quarter Earnings Per Share 1961	Dividends Per Share 1960	Dividends Per Share Indicated 1961 †	Recent Price	Div. Yield	Price Range 1960-61
American Airlines	$2.51	$1.40	$5.82	d$.06	d$.25	$1.00	$1.00	22	4.5%	25⅝-17⅜
Braniff Airways	.85	.24	2.88	d.17	N.A.	.30	—	12	—	13⅞- 8¼
Continental Air Lines	.93	.93	4.84	.03	.09	—	—	9	—	10¾- 5½
Delta Air Lines	3.62[3]	2.53[3]	13.00[3]	.98[4]	2.71[4]	1.20	1.20	48	2.5	48¾-20
Eastern Air Lines	2.24	d1.74	10.15	d.38	d1.35	1.00[1]	1.00	27	3.7	34 -22
National Airlines	1.42	d1.63	3.16	d1.34	d2.22	[2]	—	13	—	17½-10
Northwest Airlines	3.68	.75	11.14	d.56	N.A.	.80	.80	25	3.2	31½-13¼
Pan American World Airways	1.17	1.07	8.64	d.32	N.A.	.80	.80	19	4.2	23½-16⅜
Trans World Airlines	1.41	.97	4.98	d1.02	d1.40	—	—	17	—	19 -11⅛
United Air Lines	3.50	2.65	14.28	d.70	d.05	.50[1]	.50	48	1.0	48 -25¼
Western Air Lines	4.82	1.70	8.22	.78	N.A.	1.00[1]	1.00	27	3.7	35½-17½

†—Based on iatest dividend reports.
d—Deficit.
N.A.—Not available.
1—Plus stock.
2—Paid 6% stock.
3—Year ended June 30.
4—9 months ended March 31.
5—6 mos. ended Dec. 31, 1959 & 1960.

American Airlines: Off to a slow start in 1961 as a result of the engineer's strike, it appears unlikely that this year's earnings will equal the $1.40 per share of 1960. Despite slim coverage, the $0.25 quarterly rate has a fair chance of holding. **B4**

Braniff Airways: This marginal carrier lost a major new route by the final ruling in the Southern Transcontinental Case. Operations on the company's South American route remain unprofitable and the overall outlook is uncertain. **C4**

Continental Airlines: This aggressively-run carrier has changed its character in recent years by attempting to compete against much larger units. A measure of success has been obtained to date. **C2**

Delta Air Lines: This company appears to have made a successful transition to the jet age. Its equipment has placed it in a strong competitive position. **B1**

Eastern Air Lines: Though still in the red, Eastern operates a well-integrated route system. Basic organizational changes taking place improve the company's longer term outlook. **B4**

National Airlines: This company, recently awarded a major route from Florida to the West Coast, now faces high costs of developing this line. **C4**

Northwest Airlines: Hobbled by two strikes during 1960, this carrier reported a sharp drop in earnings. The immediate outlook points to modest improvement. **C4**

Pan American World Airways: This large carrier enjoyed a fair year in 1960, but prospects for 1961 and beyond are obscured by the possibility of vigorous competition from state-run foreign lines. **B4**

Trans World Airlines: Recent management changes were constructive and the latent advantages of this airline may eventually be realized. However, time will necessarily elapse before results can be accomplished. **64**

United Air Lines: This company has become the largest unit in the industry through merger with Capital. With a round route structure and good equipment, long-term prospects appear above-average. **B2**

Western Air Lines: Company is well entrenched in its market. Equipment is now competitive and prospects favor continued growth over the long pull **B2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

their 1960 profit on but one-fourth of the volume! A final word on last year's profits is that they represented a mere 2.9% return on investment, which was not even in the same ball park with the 10.5% the C.A.B. has specified as required for adequate airline earnings.

Rough Going In 1961 First Quarter

Dark as the 1960 picture was, things have managed to deteriorate even further thus far in 1961. General softness throughout the economy continued to have its harmful effects on airline traffic in the early months of this year. As if this were not enough by itself, a six-day engineer's strike in February seriously disrupted operations on **Pan American, American, National, Eastern, T.W.A.** and **Western. These factors combined to produced a 4.3% decline in traffic in the first quarter of 1961, on a year-to-year basis.**

As a result of the strike, available seat miles for the period were off about 5% from those of the year before. While the overall decline in revenue passenger miles was discouraging by itself, the industry had to face up to another adverse factor which has been in the making for some time, viz., a slide in first class traffic relative to the rising volume of the lower rated coach business. **Actually, the diversion of traffic to economy fare has been hastened by the advent of the jet age; the shorter time aloft no longer appears to justify the extra price of a wider seat, in the minds of quite a few travelers. Specifically, coach traffic represented 52.5% of the total in the first quarter of 1961, up from 44.3% the year before.**

Thus, with the traffic trends working against them, and the strike losses faced in February plus the added expense caused by the exceptionally hard winter, the airlines wallowed in the red during the the first quarter of 1961. For example, **American** reported a deficit of $2.0 million, up from a loss of only $500,000 the year before, while **T.W.A.** pushed its red ink to $9.3 million, from $6.8 million in 1960.

On the other hand, **United** benefited from the strike to some extent, with the result that it only lost $200,000 in 1961, compared with $2.8 million in the forepart of 1960. Finally, tiny **Continental,** doing much better than the "big boys," posted an improvement in net to $164,000, from $54,000 in the first quarter of 1960.

C.A.B. Theorizes

Meanwhile, the regulatory policies of the C.A.B. remain as vexing to the airline industry as ever. On the one hand, the Board finally recognized after years of stubbornness, that air transport industry

profits are in no way commensurate with the capital required to conduct the business. This led to the formal pronouncement that the industry should be entitled to earn 10.5% on its investment. Initially it sounded as if the Board was espousing a real rate-of-return policy which, in effect, would place a floor under airilne profits. But thus far, this is not the case. Apparently, the 10.5% return on capital is a target that the C.A.B. recognizes as justified, but one which is not likely to approach realization under the existing circumstances.

Reports are now being heard that the airlines will seek fare relief in an effort to bolster their sad profit and loss statements. But there is no indication that the increase, if granted, will push the carrier's return anywhere near the 10.5% area. The best guess at present is for another modest hike in fares, perhaps in the 3-5% range. If by some miracle Congress should repeal the general 10% excise tax on passenger fares, it is conceivable that relief could run as high as 5-7%; but this event is highly unlikely.

C.A.B. More Solicitous Of Traveling Public

The major determinant behind C.A.B.'s wavering policies seems to be the Board's strong orientation toward the traveling public. In its zeal to protect their interests, the C.A.B. appears to have been unable to appreciate the severity of the carriers' problems. To be sure, a General Passenger Fare Investigation was launched in 1956 to determine if fares were adequate. While the hearings were proceeding, several petitions for higher fares were denied, but as the rapid deterioration of airline profits continued, the Board was forced to grant interim relief in 1958, and in 1960 finally recommended a 12% increase on the ground that its examiner decided that fares prior to 1958 had been too low. These were very meager results of an investigation protracted over a four-year period.

Salvation by Merger?

The Board probably has mixed feelings on the current merger talk surrounding the airline industry. On the one hand, a union such as United-Capital (where the latter had no other alternative to bankruptcy) has been warmly applauded by the Board. On the other hand, some members of the C.A.B. privately worry about the "octopus" which has been created as a result of this amalgamation. Visions of an ultimate handful of large systems probably cause some members as much anguish as the prospect of more impending bankruptcies. But the over-riding consideration in the future is expected to be the need to bolster profits and avoid a return to larger subsidies by the major lines. What better way to do this than by eliminating the excess competition existing between the airlines today?

If the Board is looking for a villian to blame for the industry's current plight, it need not look far. Its own policy of attempting to build up weaker carriers by permitting them to compete in the lush markets has boomeranged. Not only has this remedy failed to work, but it has tended to drag the stronger companies down to the level of their poor cousins. A once profitable Eastern Airlines, for example, has seen its earning power steadily diluted as a result of new competition created by the C.A.B. into the rich Florida market.

►Recently the Board handed down its final decision in the important Southern Transcontinental Case, awarding Delta and National major new routes to the West. Eastern and Continental received minor regional awards; this was particularly disappointing to the former which has been anticipating authority to serve the West Coast. The major loser in this case was American which had been conducting an interchange service from the southeast to the southwest. But this blow was cushioned to some extent by giving American a new segment between Houston and El Paso; thus the net loss of volume will not be as large as initially feared. The overall effect of the Southern Transcontinental Case is to close the last big gap left on the domestic scene. Unless the Board is going to continue its old policy of handing out awards to beef up sagging airlines, the nation's route system is now established on some sort of permanent basis.

Prospects For 1961

During the balance of 1961, what are the prospects for the airline industry? Is the poor start a harbinger of full-year results? Notwithstanding the adverse results of early 1961, traffic should experience some year-to-year growth. With business conditions now improving and assuming normal summer weather, the picture should gradually brighten in the months ahead. Despite the slow start, revenue passenger miles are likely to establish a new peak in 1961, perhaps by 4-6% over last year's results. However, within this framework coach traffic should continue to rise while first class business remains soft. This, unfortunately, spells a lower yield per revenue passenger mile for the industry just at the time when it can be least afforded.

Bid For Higher Fares

►While this problem will undoubtedly influence the thinking behind any petition for higher fares, there is another aspect of the picture which also will play a role in determining the price of an airline seat. **Since the airlines have just about drained off all the long-distance train and bus traffic that they are going to get, growth must now come from normal secular sources and from inroads into the toughest competitor of them all — the automobile. Last year nearly 89% of all intercity travel was performed by this means of conveyance, a method which is far cheaper than air if more than one person is involved. Furthermore, the speed of ground movement has been steadily abetted by the continual improvement in the highway system, which, by 1972, will be even more highly developed.**

►Obviously, higher fares are not going to get the traveler out of the drivers' seat and into the airplane. Instead, it is likely that more experimental fares similar to commuter-type service now being tried by Eastern and Alleghany will be seen. But while such schemes may well pay large benefits over

Comprehensive Statistics Comparing the Position of Leading Airline Companies

Figures are in million dollars except where otherwise stated.	American Airlines	Eastern Air Lines	Northwest Airlines	Pan Amer. World Airways	Trans World Airlines	United Air Lines
CAPITALIZATION:						
Long Term Debt (Stated Value)	$228.7	$165.0	$ 68.5	$317.3	$223.2	$242.0
Preferred Stocks (Stated Value)	$ 7.5	—	$ 11.2	—	—	—
No. of Common Shares Out. (000)	8,246	3,234	1,385	6,623	6,674	4,217
Capitalization	$244.6	$169.0	$ 93.6	$324.0	$256.6	$284.2
Total Surplus	$137.4	$106.5	$ 27.0	$133.1	$ 92.6	$105.8
INCOME ACCOUNT: Fiscal Year Ended	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
Total Oper. Revenues	$428.4	$293.7	$123.3	$413.0	$378.3	$379.1
Deprec., Depletion, Amort., etc.	$ 36.2	$ 38.4	$ 13.8	$ 50.1	$ 37.4	$ 46.3
Income Taxes	$ 9.9	$CR4.1	$ 1.0	$ 6.9	$ 7.7	$ 3.9
Interest Charges, etc.	$ 4.1	$ 6.0	$ 2.6	$ 12.3	$ 4.1	$ 4.8
Balance for Common	$ 11.5	$ d5.6	$ 1.0	$ 7.0	$ 6.4	$ 11.1
Operating Margin	5.6%	—	4.6%	3.8%	4.2%	4.0%
Net Profit Margin	2.7%	—	1.3%	1.7%	1.6%	1.7%
Percent Earned on Invested Capital	7.7%	—	3.1%	5.0%	5.1%	4.5%
Earned Per Common Share	$ 1.40	$ d1.74	$ .75	$ 1.07	$ .97	$ 2.65
Cash Earnings Per Share	$ 5.82	$ 10.15	$ 11.14	$ 8.64	$ 4.98	$ 12.56
BALANCE SHEET: Year Ended	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
Cash and Marketable Securities	$ 75.0	$ 14.7	$ 19.3	$ 42.6	$ 64.2	$ 32.7
Inventories, Net	$ 2.7	$ 15.8	$ 3.0	$ 11.0	$ 15.2	$ 5.8
Receivables, Net	$ 75.9	$ 27.7	$ 12.3	$ 58.1	$ 30.7	$ 52.8
Current Assets	$155.0	$ 68.1	$ 36.1	$131.0	$112.9	$106.7
Current Liabilities	$ 97.3	$ 39.1	$ 18.8	$ 99.5	$ 76.9	$ 85.5
Working Capital	$ 57.7	$ 29.0	$ 17.3	$ 31.5	$ 36.0	$ 21.2
Current Ratio (C. A. to C. L.)	1.6	1.7	1.9	1.3	1.4	1.2
Fixed Assets, Net	$298.7	$257.8	$103.4	$373.8	$294.7	$392.0
Total Assets	$513.7	$337.8	$148.7	$585.7	$450.3	$508.8
Cash Assets Per Common Share	$ 9.10	$ 4.56	$ 13.98	$ 6.44	$ 9.61	$ 7.76

d—Deficit.

the longer term, their immediate effect on earnings is not likely to be a plus factor.

►As far as the outlook for industry load factors in 1961 is concerned, the over capacity situation is still troublesome. At the end of 1960, the U.S. certificated airlines had a fleet of 1,908 aircraft, of which 470 were jet-powered planes. The latter figure included 224 pure jets. This year the airlines will take delivery of an additional 157 turbine aircraft, of which 118 will be pure jets.

Translating this into available seat-miles, another sizeable year-to-year jump in capacity is coming. This is particularly true in view of the substantial number of pure jets entering service, since this type of equipment is enormously productive. Since it is hard to keep a $5 million piece of equipment idle even when demand for its services is not pressing, the outlook is for another year-to-year decline in industry load factors during 1961, continuing the adverse trend already established in 1960.

What Of Profit Margins And Earnings?

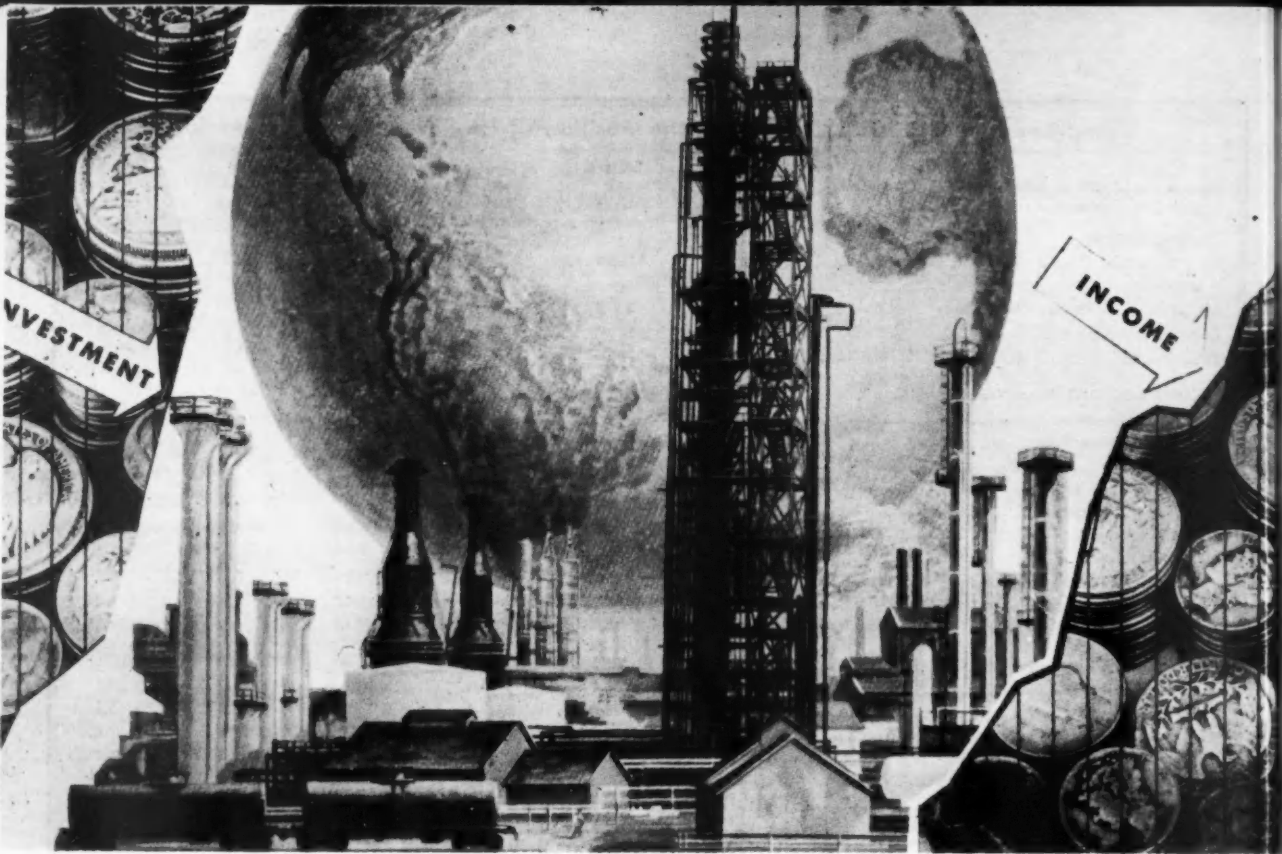
►Not only do 1961 prospects favor further pressure on profit margins stemming from sagging load factors, but there is at least the chance of higher jet fuel taxes and increased landing fees. Translating all of these factors into the earnings outlook, one has the feeling that the bad earnings news for the industry has not been entirely gotten out of the way. Depending upon the extent of fare relief, if any, the 1961 earnings showing may not differ greatly from the poor results of 1960.

Some Rays Of Hope

►At this point the airline investor is probably getting a queasy feeling in his stomach. Are there no rays of sunshine for this industry at all? **Fortunately, the picture is not entirely bleak, and a turn for the better may be seen within a comparatively short period of time. First, with the changing composition of the members comprising the C.A.B., the possibility of more enlightened regulation does exist. Put it another way: it is hard to see how the regulatory situation could worsen.**

Notwithstanding the fact that the Board has not yet put any teeth into its pronouncement that the industry is entitled to a 10.5% return on investment, some evidence suggests that the commission is becoming more favorably disposed toward the idea that a profitable airline industry is not incompatible with the public interest. A clear test of the Board's intentions will be forthcoming when the question of fare relief is raised and when additional mergers are proposed.

►Another factor which should not be overlooked in the current gloom is the possibility of an improvement in load factors in early 1962. Once this trend is reversed, a dramatic leverage play will come into effect. **C.A.B.** *(Please turn to page 281)*



Analyst's Diagnosis of...

STOCKS DISTURBING INVESTORS

— Near term — and longer term view

By ROBERT B. SHAW

— Answers subscribers' inquiries on

OLIN-MATHIESON CHEMICAL CORP. — DOW CHEMICAL CO. — GOODRICH (B. F.) CO. — MONTGOMERY WARD & CO., INC. — UNITED STATES STEEL CORP. — WESTINGHOUSE ELECTRIC CORP. — BORG-WARNER CORP.

WHILE the greatest excitement is being provided by a relatively small array of glamour stocks, no small number of stocks—as their holders are painfully aware—have shared but little in market improvement, and some have even been making new lows.

In contrast with the general market, many of these issues are selling well below their highs established two to five years ago. Worse, some of them have shown only negligible earnings progress over a period as long as ten years. For a substantial part of this interval their problems were lightly regarded, if not masked altogether, and the issues continued to sell on an established conception of the company's position. But finally it became impossible to ignore actual statistical results any longer, and these issues have suffered marketwise as investors got tired of waiting for a change in their fortunes.

The following is to answer the questions of subscribers who have been asking which of these stocks will stay in the doldrums, and where something new has been added that brightens the picture. Let's look then at a list of seven of the most important companies on which there have been a large number of inquiries: Olin Mathieson, Dow Chemical, B. F. Goodrich, Montgomery Ward, U.S. Steel, Westinghouse Electric and Borg Warner.

Statistical Data On 7 Stocks Disturbing Investors

Company (and recent price)	Income Data: Net Sales (Millions)	Net Income (Millions)	Net Profit Margin	Net Earnings Per Share	Div. Per Share	Balance Sheet Data In Millions: Cash & Marketable Securities	Net Working Capital	Long Term Debt	Net Property	Price Range
BORG-WARNER CORP.: (40)										
1961 (1st Quarter)	$133.5	$ 3.6	3.0%	$ .40	$2.00[1]					43⅝-35 [2]
1960	586.8	27.2	4.6	3.01	2.00	55.8	196.3	16.8	116.0	48¾-31⅞
1959	649.9	39.3	6.0	4.36	2.00	71.6	201.5	17.6	114.3	48½-37¾
1958	533.0	21.1	4.0	2.34	2.00	71.2	190.4	19.1	110.6	39⅛-25⅝
1957	608.5	34.0	5.6	3.81	2.40	73.1	190.1	21.7	116.7	46 -25⅞
1956	598.7	35.8	5.9	4.01	2.30	58.8	182.6	23.3	114.2	50⅞-38½
DOW CHEMICAL (71)										
1961 (1st 9 months)	604.8	46.0	7.6	1.60	1.40[1]					78 -70 [2]
1960	781.4	82.4	10.6	3.01	1.40[3]	36.5	156.2	154.0	558.5	99⅝-70⅛
1959	705.4	62.9	8.9	2.39	1.20[3]	46.3	130.7	172.3	537.1	100⅞-74⅛
1958	636.2	46.0	7.2	1.78	1.20	44.7	155.5	274.5	563.9	77½-52⅛
1957	627.8	53.1	8.4	2.15	1.20[3]	30.3	83.7	132.6	465.2	68¼-49
1956	656.2	59.6	10.5	2.52	1.10[3]	72.4	143.4	159.7	376.4	82⅞-57
GOODRICH (B. F.) (56)										
1961 (1st Quarter)	172.9	5.7	3.3	.63	2.20[1]					60⅞-51½[2]
1960	764.7	30.0	3.9	3.33	2.20	56.8	280.5	97.8	175.5	89½-45
1959	771.6	37.5	4.8	4.18	2.20	24.3	251.7	40.4	165.1	103¼-76¼
1958	697.3	35.4	5.1	3.95	2.20	57.7	252.3	42.7	167.3	81¾-53½
1957	734.6	39.3	5.3	4.40	2.20	45.3	243.9	44.5	166.1	79⅜-57¼
1956	724.1	43.7	6.0	3.90	2.20	73.3	245.1	45.6	151.4	89¼-66
MONTGOMERY WARD & CO. (30)										
1961 (Not yet reported)					1.00[1]					34¾-28 [2]
1960	1,249.0	15.0	1.2	1.07	1.75	56.7	490.9	—	102.2	53⅜-25½
1959	1,220.6[4]	30.6[4]	2.5[4]	2.28	2.00	33.5	541.0	—	96.0	53½-40½
1958	1,092.2	28.0	2.5	2.08	2.25	94.7	566.5	—	68.0	42⅞-28
1957	1,073.8	29.7	2.7	2.21	2.25	147.9	587.6	—	47.3	40¼-27¼
1956	1,045.7	35.8	3.4	2.65	2.62	198.1	610.9	—	34.0	46⅞-38

1—Indicated for 1961.
2—To May 4, 1961.
3—Plus stock.
4—53 weeks.

High Hopes for Olin-Mathieson Have Not Yet Materialized

The mergers of **Olin-Mathieson** with well established and well managed companies created a furor, and was looked upon by most sophisticated investors as an ideal consolidation of successful entities — and there has been considerable puzzlement as to why it has not lived up to expectations.

Mathieson Chemical, the nucleus of the present enlarged organization, was an old and staid company with a favorable but unspectacular record of earnings and growth at the end of the war. To adjust itself to the rising competition in the chemical field, the burgeoning of plastics and the increasing emphasis upon brand names, it reached out to broaden income sources. This was initiated by the merger with E. R. Squibb, one of the largest and highly respected ethical drug producers, in 1952.

The Squibb merger was apparently pretty well digested when, two years later, in 1954, Mathieson carried out what then looked like a particularly fortunate union with Olin Industries, primarily a manufacturer of ammunition and explosives. It has been said results of this merger have been rather disappointing.

But this was not the end of the expansion program. In 1955 Blockson Chemical and Brown Paper Mill were acquired, as well as a small producer of aluminum extrusions in Mississippi, and the following year the company plunged directly into the primary aluminum industry by the formation—jointly with **Revere Copper & Brass** — of a 180,000 ton annual capacity reduction affiliate, **Ormet.**

In 1957 it acquired Southern Electrical, a fabricator of wire and cable. Additional expansion was carried out through numerous subsidiary and affiliate companies. Subsequently, too, they acquired a very substantial interest in an aluminum plant in Guinea, West Africa. (This plant is already menaced by political agitation, but is insured against expropriation by the I.C.A.)

Lack of Adequate Coordination

To some extent, the enlarged Olin-Mathieson Corp. has simply suffered bad luck. Excessive competition and over-capacity has become chronic in the chemical industry. And aluminum, which the company entered so hopefully, has suffered a particularly severe over-production shock. The Air Force cancelled a large boron fuel research program. But such conditions have also been common to many other companies, which have weathered them more securely.

It is hard to avoid the conclusion that the Olin-Mathieson combination did not really mesh well, that personality conflicts existed between top executives of the two components. Merger became contagious, and management tried to ride off in too many directions at once. Operations of the various divisions remained too decentralized.

It has not been possible to correct all these deficiencies promptly, but Stanley Osborne, president since 1957, has been carrying on an active overhaul. Several subsidiaries have been disposed of—Bradley Container to **American Can** and Lentheric toiletries to **Helene Curtis Industries**—while the remaining activities have been regrouped into six operating and an international division. Management has been centralized in the New York office. Substantial write-offs were charged in 1958, while larger capital expenditures — from depreciation funds, not debt—are currently projected to beef up the more profitable chemical and metal divisions.

By this time the friction between the Mathieson and Olin halves of the company should be largely dissipated. Besides Osborne, the Chairman, Thomas S. Nichols, is also a former Mathieson executive. But perhaps a meaningful symbol of a true union is the company's recent adoption of the single word "Olin" as its popular corporate identification.

Patience May Finally be Rewarded

Sales in 1960 were divided roughly as follows: chemicals, 31%; packaging (kraft and printing paper, cellophane), 18%; metals, 17%; drugs, 16%; weapons and ammunition, 10%; and energy (fuels and explosives), 8%. Aluminum operations finally reached the break-even point at the end of the year. Research expenditures in 1960 amounted to $23.8 million, heaviest in the company's history. Debt was reduced by $3.5 million during the year, leaving $331 million outstanding.

Since Olin's early recuperation has now been predicted prematurely on many occasions, any signs of improvement must still be appraised with restraint. But it does look like top management conflicts have been largely eliminated and a competent and undisputed leadership established. Many investors' patience with this company is undoubtedly exhausted, but the long-delayed merger advantages may yet be realized.

Dow Acts Like a "Tired Blue Chip"

Another leading chemical company, **Dow** looks considerably better on its recent record than Olin, and yet it has turned in a distinctly lackluster price performance recently, declining to around 72 currently after having scraped 100 last year.

Examination of Dow's record is confused a little, as its fiscal year ends on May 31. Last year the company was, accordingly, ahead of the recession, and lifted both sales and earnings very substantially to new highs, $781 million and $3.01 a share respectively. On the basis of nine months results, sales for the fiscal year just ending will be nearly identical with last year's, but earnings will drop rather sharply to around $2.20 a share.

Although more restrained in its merger activity, Dow has made several important acquisitions. As long ago as 1933 it established a joint affiliate with **Ethyl Corp.,** and better known Dow-Corning was organized in 1943. More recently, the **Dobeckmun Company** was added to the fold, while the most recent acquisition, as of last December, is **Allied Laboratories.** International operations, handled chiefly through two trade subsidiaries, account for about 11% of total sales, with western Europe comprising the most important market.

One real distinction Dow possesses is its operation of a domestic joint venture affiliate, Dow-Badische, in Texas, in partnership with a Dutch co-parent. Dow also has joint venture enterprises in France, Spain, India and Japan, besides a larger number of wholly owned plants.

Some Loss of Glamour

Prior to the Allied Laboratories merger Dow's sales were divided as follows: Chemicals, 51%; plastics, 36%; Magnesium, 7%; and Agricultural Chemicals, 6%. Allied will create a drug proportion of about 4%. Dow is now beginning for the first time to reach the consumer market directly with certain branded products, such as Saran and Dowgard. Long accustomed to extracting magnesium from sea water, Dow may discover other valuable properties in the same source through its extensive basic research. At present the company is working on a salt water conversion project.

Other than the intensive competition in the chemical field, which has necessitated several price cuts recently, no specific circumstances accounts for its unfavorable price action. The stock is still high—about 25 times—even in terms of last year's earnings ($3.01 a share), and investors must anticipate a 25% decline for fiscal 1960-61. Despite its continuing active research, the chemical industry has lost some of its glamour to more flamboyant newcomers. Thus, Dow looks like excellent value for the long pull, but price recovery may still be delayed for some time.

Too Much Expected of Goodrich

Some of the rubber companies, and particularly **B. F. Goodrich,** also provide a vivid illustration of the "tired blue chip" group. Although the stock advanced almost steadily from around 10 in 1949 to 80 in 1956, and subsequently hit a high of 103, this price advance was not even closely paralleled by earnings progress. Rather, the market's appraisal of earnings was pushed up from a modest 6 to 8 times to a lofty 21 times in 1950. After a rapid gain in the immediate post-war period earnings remained at a virtual standstill throughout the 50's. At first, apparently, the market regarded this only as the pause that refreshes, but when no restoration of the earlier vigor appeared, and earnings dropped last year to $3.33 a share, their lowest level in ten years, the stock plummeted to the low 50's.

Although the tire and rubber industry is crucial in modern society, Goodrich has had various handicaps, some individual and some common to the industry, which it has been unable to overcome. Its retail chain has been somewhat less active than those of several other tire manufacturers, although a greater emphasis (evidenced concretely by the recent purchase of **Rayco Manufacturing)** is now being placed upon this division. Goodrich is also the only one of the Big Four rubber companies lacking its own plantations; properties recently acquired in Liberia are not expected to come into production

Statistical Data On 7 Stocks Disturbing Investors—(Continued)

Company (and recent price)	Income Data: Net Sales (Millions)	Net Income (Millions)	Net Profit Margin	Net Earnings Per Share	Div. Per Share	Balance Sheet Data In Millions: Cash & Marketable Securities	Net Working Capital	Long Term Debt	Net Property	Price Range
OLIN MATHIESON CHEMICAL (44)										
1961 (1st Quarter)	159.9	5.1	3.2	.38	1.00[1]					48 -40 [2]
1960	689.6	34.6	4.9	2.59	1.00	84.0	249.8	331.0	396.1	54⅜-37¾
1959	702.0	37.4	5.3	2.80	1.00	104.6	259.2	334.4	378.9	58¾-41⅞
1958	601.4	9.3	1.3	1.78	1.50	76.2	241.4	337.8	383.7	45⅛-31½
1957	596.6	36.3	6.0	2.67	2.00	96.3	251.8	307.7	370.6	61¾-37⅝
1956	560.4	44.8	8.0	3.38	2.00	47.5	182.7	194.9	316.3	62⅜-48
U.S. STEEL (88)										
1961 (1st Quarter)	708.7	31.9	4.5	.47	3.00[1]					90½-75½[2]
1960	3,648.8	304.1	8.3	5.16	3.00	451.7	608.1	422.7	2,787.5	103¼-69¼
1959	3,597.9	254.5	7.0	4.25	3.00	515.4	615.5	454.4	2,511.8	108⅞-88¼
1958	3,438.6	301.5	8.7	5.13	3.00	507.5	696.3	487.5	2,345.1	97½-51⅜
1957	4,378.2	419.4	9.5	7.33	3.00	526.3	679.6	216.5	2,109.5	73½-48¼
1956	4,198.8	348.1	8.3	6.01	2.60	510.1	603.7	245.0	1,878.0	73¾-51⅜
WESTINGHOUSE ELECTRIC (44)										
1961 (1st Quarter)	436.1	9.0	2.0	.25	1.20[1]					50 -40 [2]
1960	1,955.7	79.0	4.0	2.22	1.20	293.0	772.3	321.0	355.3	65 -45
1959	1,910.7	85.9	4.5	2.43	1.05	378.4	771.4	321.0	336.2	55⅜-35¼
1958	1,895.7	74.7	3.9	2.13	1.00	309.6	729.7	321.0	340.6	37¼-27¾
1957	2,009.0	72.6	3.6	2.09	1.00	236.0	706.4	321.0	332.4	34¼-26⅛
1956	1,525.3	3.4	.2	.05	1.00	129.0	687.2	321.0	316.9	32⅞-25⅜

1—Indicated for 1961.
2—To May 4, 1961.
3—Plus stock.
4—53 weeks.

until 1962. Thus, Goodrich has been deprived of the partial offset against the high natural rubber quotations last year, which the other companies possessed.

Extreme competition has invaded the tire business, due to the lag in autos, and prices are currently at their lowest level since 1954. The proliferation of sizes and style of tires has added confusion and reduced volume on individual items. No material improvement in profit margins is in sight.

Diversification Does Not Always Bring Salvation

Although the smallest of the Big Four, Goodrich is probably the most thoroughly diversified, and tire sales account for only about half of its total volume. It was a pioneer in the development of synthetic rubber, in 1939, and jointly owned **Goodrich Gulf Chemicals** remains a major producer of styrene-butadiene.

Other chemical operations contribute an estimated 15% of sales and a larger proportion of earnings. But this diversification has not been an unmixed blessing. Competition has also been intense through the chemical field; prices of polyvinyl chloride resins, of which Goodrich is the world's largest producer, dropped 20% last year. Long-term debt was more than doubled, to $99 million, during 1960 to pay for new projects, and this represented only the first stage of the projected five-year, $250 million capital expansion program. As a consequence interest and depreciation charges will be heavy for years to come.

These factors suggest that the stock was excessively valued, reflecting unrealistic hopes, before its recent decline. After this drastic correction the stock does look genuinely attractive, but only for income and long-range growth, not for early recovery.

Montgomery Ward's Hard Road

In an economy in which steady growth has been the order of the day, **Montgomery Ward** occupies almost a unique position — sadly unique. Sales volume has been almost at a standstill for ten long years, while earnings have slipped steadily. The favorable trend in the immediate postwar period lifted net income to a gratifying $5.59 a share in 1950, but at that point a reversal set in which cut net to $2.28 a share in 1959 and to a mere $1.07 in the fiscal year just ended.

The story of the late Sewell Avery's extremely conservative policy, the postponement of expansion and concurrent building up of reserves until it became a common joke to describe Ward as a bank rather than a store, and the exciting proxy fight initiated by Louis Wolfson in 1955, are all too well known to require repetition. But let's examine what has happened since Mr. Avery retired as a result of that contest and was succeeded by the more youthful John Barr.

Accomplishments Under New Management

Plenty has happened. Many unprofitable stores were closed down as their leases expired—39 closed in 1960 alone—and more modern stores have been opened in superior locations: 9 in 1957, 5 in 1958, 12 in 1959 and 21 last year. The stores closed were often located in the congested, downtown sections of medium-size cities; the new outlets are situated along traffic arteries, *(Please turn to page 285)*

FOR PROFIT AND INCOME

Foods

Favored food stocks, once regarded as conservative income issues, have widely outgained the industrial average. Examples include Borden, Campbell Soup, Corn Products, General Foods, Gerber Products, Heinz, Kellogg, Quaker Oats and Standard Brands. This puts us, and other professional advisers, "on the spot". It is wise to keep on recommending now-popular food stocks at higher and higher prices? Our answer is this: On a long-pull view, these issues remain good holdings and have further potentials as long as profit growth trends are maintained, but even for the long term we would buy only on price dips. If you are interested in medium-term capital gain, probably the "percentage" is now limited. On average, the stocks cited are priced around 23 times likely 1961 earnings, against 20 times for industrials generally. Quality considered, the 15% premium cannot be called wide. The highest valuation is 28 times in the case of General Foods. Adjusted for splits or stock dividends, here are some outstanding food-stock recommendations made here earlier: Heinz at 30 and now selling at 60; Beatrice Foods at 40, now 60; Gerber Products at 27, now 43; and Corn Products at 28½, now at 48¼.

Take Profits

Twentieth Century-Fox was recommended here as a speculation in the issue of last November 5 at 36½. It has now risen over 38% to 50½. As the holding period exceeds six months, maximum Federal tax on the gain is 25% and for most who bought the issue the tax is lower since the 25% maximum rate becomes advantageous starting with taxable income at $18,000 for a single person and $36,000 in the joint return of a married couple. The stock will never be of investment grade. We now suggest profit taking.

American Broadcasting

Similar reasoning applies to American Broadcasting - Paramount, recommended here in April, 1960, at 25 and now above 57 for a gain of around 128% in little more than a year. The valu-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
American Agricultural Chemical	9 mos. Apr. 2	$ .49	$ .19
American Natural Gas	12 mos. Mar. 31	5.36	4.57
Fairchild Camera & Instrument	Quar. Mar. 31	.71	.65
Homestake Mining	Quar. Mar. 31	.55	.43
International Silver	Quar. Mar. 31	.80	.72
Combustion Engineering	Quar. Mar. 31	.48	.40
Great Northern Paper	12 weeks Mar. 26	.81	.68
Spencer Chemical	Quar. Mar. 31	.53	.27
Smith-Corona Marchant	9 mos. Mar. 31	.43	.19
Simplicity Pattern Co.	Quar. Mar. 31	.64	.58

ation is around 23 times earnings, a price-earnings ratio over 60% higher than that accorded Columbia Broadcasting System at present. We do not think the stock is that good, even though we figure CBS is no bargain either. If you bought it on our advice here, take profits.

Insurance

The casualty - fire insurance stocks are gradually coming into increased investment favor with institutional funds and conservative individual investors, due to probability of considerably improved earnings this year and over the longer term. Continental Insurance was recommended here earlier at 47, Reliance Insurance at 53; Aetna (Fire) Insurance only eight weeks ago at 107. These stocks are currently at 61, 64 and 113, respectively. They are good holdings; and, on a long-pull view, new investment buying is still justifiable. But if you are interested in making "a fast buck," they are not for you.

Inside The Market

In recent trading up to this writing, the following stock groups have out-gained the general market: aircraft, air lines, coal, copper (aided by a boost in domestic prices), electrical equipment (in a rally after long decline), dairy products, finance companies, department stores and food stores, food brands, oils, steels, tires and electric utilities. The following have lagged at least for the time being: automobiles, baking, machinery, metal fabricating, motion pictures, publishing, shipbuilding, sugar and sulphur.

Strong Stocks

Individual stocks reflecting above-average demand at this writing include: American Brake Shoe, American Investment, American Smelting, Borman Food Stores, Campbell Soup, Cessna Aiacraft, Combustion Engineering, Commercial Solvents, Continental Can, Ex-Cell-O, Fansteel, Federal Mogul, General Tire, Grace, Granite City-Steel, Household Finance, International Nickel, Kennecott, Norwich Pharmacal, Pacific Finance, Piper Aircraft, Revlon, Rheem Mfg., Schenley, Socony and United Aircraft.

Lagging

Stocks lagging at this writing include: Admiral, American Motors, American Standard, Bendix, Blaw-Knox, Budd, Brunswick Corp., Burroughs Corp., Collins Radio, Daystrom, Dow Chemical, Dresser Industries, Flintkote, General Dynamics, General Portland Cement, L-O-F Glass, Outboard Marine, Park Davis, Stauffer Chemical, Western Union, Swift and United Biscuit.

Banks

On average, bank stocks recently attained a new postwar high. Of those which survived the Big Crash, many remain under the absurdly inflated 1929 tops. On the whole, stocks of New York City banks, while up importantly in recent years, have risen less than representative issues in the rest of the country. In most cases, net operating earnings set records last year which should be about equalled this year. While interest rates will average lower, total earnings assets, including investments, will be higher. Year-to-year gains in earnings in the second half, should offset shrinkage, in the first half. Leading bank stocks are good choices for conservative investment. There is clear promise of long-term growth, at a good rate, in earnings and dividends; and both have been well maintained in each postwar business recession to date. Most issues are priced at ony 12 to 14 times operating earnings, with current dividend yields well above the average for industrials and moderately above the average for utilities.

Box Score

There were dividend increases by 49 companies in April, against 38 a year earlier. Otherwise, the record remained adverse. Extras numbered only 16, off from 39 a year ago. Payments were reduced or omitted in 41 instances, compared with only 9 in April, 1960. There is no change in our previously expressed view that aggregate 1961 payments will change little either way from last year. However, business recovery should bring a good deal of pleasing dividend news by November-December, the two months in which the year-end extras are voted.

Gas Stocks

The Federal Power Commission has a fantastic backlog of unsettled rate cases of natural gas pipe line operators. Last year it adopted a speed-up procedure under which an interim rate of return on properties is set, pending final settlements which might or might not require refunds by the companies to their customers of all or part of revenue derived from the higher interim rates. It is a complex "mess" in which the courts also take a hand in litigation of disputed issues. Finally, two new appointees to the five-man Commission await Senate approval and another Kennedy appointment is due soon, with one present member's term expiring in June. So there is some fresh uncertainty about future policy. Meanwhile, stocks of gas utility distributors are preferable to those of pipe line companies, but selected electric utility equities strike us as preferable to both. Big interstate gas distributors, such as Columbia and Consolidated, have their own rate complications. Intrastate companies (Oklahoma Natural Gas, Pacific Lighting) have rate situations similar to intrastate electric utilities. But they have to buy all or most of their gas from pipe line operators, and that involves cost complications beyond any direct control by them. END

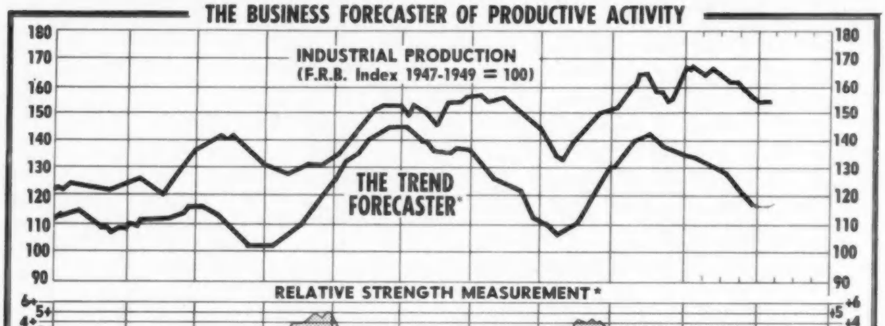
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Bliss & Laughlin	Quar. Mar. 31	$ .23	$ .93
Bridgeport Brass Co.	Quar. Mar. 31	.20	.64
Flintkote Co.	Quar. Mar. 31	.01	.10
Gladding, McBean & Co.	Quar. Mar. 31	.21	.38
Koppers Co.	Quar. Mar. 31	.34	.71
Abbott Laboratories	Quar. Mar. 31	.90	1.16
Atch., Topeka & Santa Fe Rwy.	Quar. Mar. 31	.27	.40
Cooper-Bessemer Corp.	Quar. Mar. 31	.21	.70
Filtrol Corp.	Quar. Mar. 31	.40	.60
Wagner Electric Corp.	Quar. Mar. 31	.25	.52

the Business A

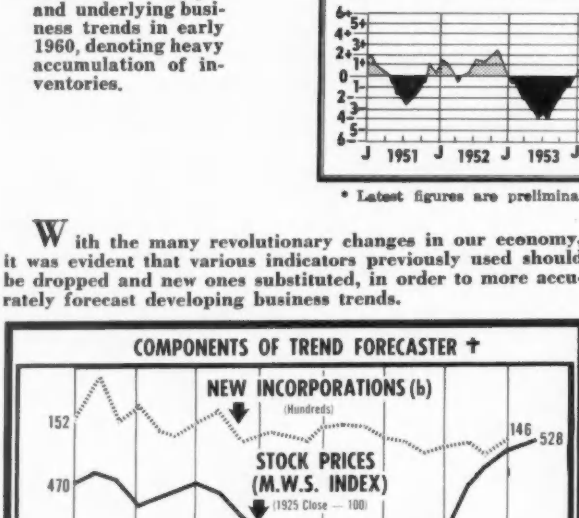
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The rise in the leading indicators has been exceeding our earlier estimates and as a result the Trend Forecaster has shown a good gain in April while the Relative Strength Measure is well into plus territory. Six of the eight components of the Forecaster were higher in the latest month for which data is available and these include housing starts, hours worked, new incorporations, raw industrial material prices, stock prices and new orders. The latter indicator apparently chalked up a further gain in April but the results for the month have not been published as yet. Only two indicators —nonresidential contract awards and liabilities of business failures — are still receding, but both appear ready to turn upward in the near future.

The Relative Strength Measure has been rising steadily since November and stood at an estimated plus one in April. At this level it is signalling that a business recovery is on the way, although the rate of advance should be moderate.

Analyst

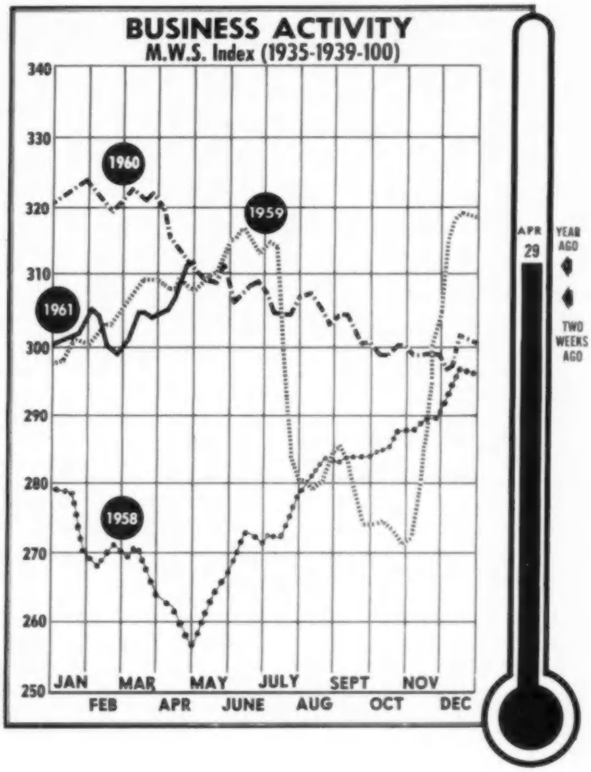
CONCLUSIONS IN BRIEF

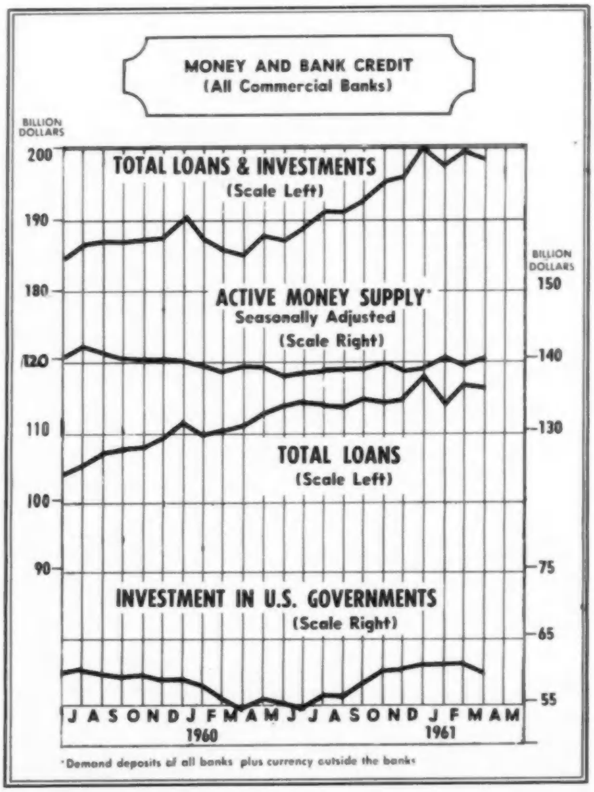
PRODUCTION — Industrial activity rose on a broad front last month, led by steel and autos. Expansion due to continue — although at a more moderate pace — with swing to inventory rebuilding in some industries adding to underlying demand.

TRADE — After rising 2½% in March, retail sales were off 1% in April, but the drop seemed due more to distortions resulting from this year's early Easter than to any easing of consumption. The May figures should look a good deal better, with higher personal income bolstering consumer spending proclivities.

MONEY & CREDIT — Bond markets received a fillip from cut in discount rate by West Germany. Outlook remains unchanged, however, with pressure on prices expected to increase as the result of Federal deficit financing and a rising demand for funds.

COMMODITIES — Sensitive commodities now marking time after sharp run-up of recent months. Farm prices in seasonal drop while finished products show little change. Improving business should bring price firmness although no sharp advances are in prospect.





*Demand deposits of all banks plus currency outside the banks

THE relatively mild recession of 1960-1961 appears to have run its course. From all indications, business "bottomed out" in the first quarter of this year and is now beginning a gradual recovery.

Although returns for the month of April are still fragmentary, enough evidence is already in hand to indicate that overall business activity was higher last month, with further gains ahead. To the analyst who looks beyond superficial day-to-day developments, the course of events in the first quarter had already indicated that a base for eventual upturn was being set.

Of special significance was the fact that demand was strong enough to absorb both total output for the period plus a sizeable amount of inventory liquidation. The reduction in inventories reached a climax in March when $600 million was lopped off stockpiles (equivalent to a $7.2 billion annual rate of decline), and this was accomplished without any decline in production.

With inventory cutting of this magnitude out of the way, businessmen increased their orders and output sharply in April, according to the National Association of Purchasing Agents, which reports that a near-record number of companies experienced gains in both new orders and production last month. The increase in output is also evident from the recent substantial gains in activity of such basic industries as steel, autos, coal and electric power. This rise in new orders and production is prima-facie evidence that demand has been rising and that

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND

	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Mar.	155	155	166
Durable Goods Mfr.	1947-'9-100	Mar.	154	153	175
Nondurable Goods Mfr.	1947-'9-100	Mar.	156	155	158
Mining	1947-'9-100	Mar.	126	126	126
RETAIL SALES*	$ Billions	Apr.	18.0	18.2	18.9'
Durable Goods	$ Billions	Apr.	5.5	5.6	6.3
Nondurable Goods	$ Billions	Apr.	12.5	12.6'	12.6
Dep't Store Sales	1947-'9-100	Apr.	145	145	138
MANUFACTURERS'					
New Orders—Total*	$ Billions	Mar.	29.8	29.1	30.3
Durable Goods	$ Billions	Mar.	13.9	13.4	14.6'
Nondurable Goods	$ Billions	Mar.	16.0	15.8	15.7
Shipments*	$ Billions	Mar.	29.5	29.0'	30.8
Durable Goods	$ Billions	Mar.	13.7	13.3	15.2
Nondurable Goods	$ Billions	Mar.	15.8	15.7	15.7'
BUSINESS INVENTORIES, END. MO.*	$ Billions	Mar.	91.1	91.7	92.3
Manufacturers'	$ Billions	Mar.	53.3	53.6'	54.3
Wholesalers'	$ Billions	Mar.	13.3	13.2	12.8
Retailers'	$ Billions	Mar.	24.4	24.8	25.1'
Dept. Store Stocks	1947-'9-100	Mar.	163	161	162
CONSTRUCTION TOTAL—†	$ Billions	Apr.	55.8	54.8	54.2
Private	$ Billions	Apr.	38.5	37.6'	38.7
Residential	$ Billions	Apr.	20.9	20.1	21.9
All Other	$ Billions	Apr.	17.6	17.5	16.8'
Housing Starts*—a	Thousands	Mar.	1283	1187	1112
Contract Awards, Residential—b	$ Millions	Mar.	1371	870	1294
All Other—b	$ Millions	Mar.	1795	1366	1752
EMPLOYMENT					
Total Civilian	Millions	Apr.	65.7	65.5	66.2
Non-farm*	Millions	Apr.	52.4	52.2'	53.1
Government*	Millions	Apr.	8.7	8.7	8.5
Trade*	Millions	Apr.	11.5	11.5	11.7'
Factory*	Millions	Apr.	11.5	11.4	12.3
Hours Worked*	Hours	Apr.	39.5	39.3'	39.6
Hourly Earnings	Dollars	Apr.	2.33	2.32	2.28
Weekly Earnings	Dollars	Apr.	91.34	90.71	89.60
PERSONAL INCOME*	$ Billions	Mar.	410	406	397
Wages & Salaries	$ Billions	Mar.	272	271	269
Proprietors' Incomes	$ Billions	Mar.	61	61	58
Interest & Dividends	$ Billions	Mar.	42	41	40
Transfer Payments	$ Billions	Mar.	33	31	28
Farm Income	$ Billions	Mar.	17	17	14
CONSUMER PRICES	1947-'9-100	Mar.	127.5	127.5	125.7
Food	1947-'9-100	Mar.	121.2	121.4	117.7
Clothing	1947-'9-100	Mar.	109.8	109.6	108.8
Housing	1947-'9-100	Mar.	132.5	132.4	131.3
MONEY & CREDIT					
All Demand Deposits*—u	$ Billions	Mar.	112.1	110.9	111.1
Bank Debits*—g	$ Billions	Mar.	98.4	97.7	95.6
Business Loans Outstanding—c, u	$ Billions	Mar.	32.0	31.2	31.0
Instalment Credit Extended*—u	$ Billions	Mar.	4.0	3.8	4.3
Instalment Credit Repaid*—u	$ Billions	Mar.	4.0	4.0	3.8
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Mar.	8.5	6.5'	9.6
Budget Expenditures	$ Billions	Mar.	7.0	6.2	6.4
Defense Expenditures	$ Billions	Mar.	4.3	3.8	4.0'
Surplus (Def) cum from 7/1	$ Billions	Mar.	(4.7)	(6.2)	(2.7)

PRESENT POSITION AND OUTLOOK

businessmen now feel they should begin replenishing depleted stockpiles. The indicated gains in new orders should provide a healthy base for further increases in output, which in turn, would reinforce demand by adding to employment and payrolls.

The betterment that has taken place in new orders and production, and the whittling down of inventories, has been accompanied by increasing activity in most of the basic sectors of the economy. Consumer spending has moved up from the low reached in February, with outlays for services showing the most consistent gains.

Retail sales rose sharp in March, and receded a bit in April, with the setback probably due more to distortions stemming from this year's early Easter than to any real drop in consumption. Public confidence in the outlook seems to be somewhat improved, with instalment buying again on the increase after only a few months of retrenchment. Government purchases of goods and services have continued their steady climb and will probably advance more rapidly in the months ahead, while our net exports are expected to remain at high levels. In the volatile field of construction and capital spending, trends are still mixed, although a more general upturn appears to be in the making. Construction activity has risen more than seasonally and the sharp gain in housing starts gives promise of further increases in outlays for home building. Nonresidential construction may not show any sharp gains although it should be bolstered by the large backlog of contracts already placed and by increasing government outlays for highways and other building projects. Capital spending is still in a declining phase, but this sector has usually bottomed out only after a general business upturn was well under way. Recent surveys indicate that businessmen are planning to increase their capital outlays by the third quarter, although initial gains may be small.

Comparison of the improvement with that of previous postwar recoveries indicates that the current upturn is proceeding pretty much on schedule. Once an expansion gets under way, it generates its

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter I	1960 Quarter IV	1960 Quarter III	1960 Quarter I
GROSS NATIONAL PRODUCT	499.5	503.5	503.5	501.3
Personal Consumption	329.0	330.8	328.3	323.3
Private Domestic Invest.	61.0	66.0	70.8	79.3
Net Exports	5.0	4.6	3.7	1.2
Government Purchases	104.5	102.1	100.7	97.5
Federal	54.5	53.3	52.7	51.8
State & Local	50.0	48.8	48.0	45.7
PERSONAL INCOME	407.5	408.5	408.0	396.2
Tax & Nontax Payments	50.4	50.4	50.5	49.2
Disposable Income	357.2	358.1	357.5	347.0
Consumption Expenditures	329.0	330.8	328.3	323.3
Personal Saving—d	28.1	27.2	29.2	23.7
CORPORATE PRE-TAX PROFITS			41.5	48.8
Corporate Taxes			20.3	23.8
Corporate Net Profit			21.3	25.0
Dividend Payments	14.0	14.1	14.0	13.9
Retained Earnings			7.3	11.0
PLANT & EQUIPMENT OUTLAYS	34.4	35.5	35.9	35.2

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Apr. 29	311.7	310.7	311.6
MWS Index—Per capita*	1935-'9-100	Apr. 29	223.1	222.2	226.6
Steel Production Index*	1957-'9-100	Apr. 29	99.7	95.8	118.6
Auto and Truck Production	Thousands	May 6	160	148	182
Paperboard Production	Thousand Tons	Apr. 29	320	322	307
Paperboard New Orders	Thousand Tons	Apr. 29	320	306'	321
Electric Power Output*	1947-'49-100	Apr. 29	290	291	276
Freight Carloadings	Thousand Cars	Apr. 29	544	533	643
Engineerings Constr. Awards	$ Millions	May 4	419	555'	530
Department Store Sales	1947-'9-100	Apr. 29	146	144	151
Demand Deposits—c	$ Billions	Apr. 26	61.4	61.6	60.7
Business Failure—s	Number	Apr. 27	369	320	325

PRESENT POSITION AND OUTLOOK

own steam, with increases in one area leading to further gains in another. With this impetus, plus the gradual secular growth of the economy, the recovery could maintain a moderate upward pace for some time, without the doubtful benefits of massive artificial stimulants. The Administration, however, seems determined to achieve a faster recovery via further increases in Government spending. This may be the worst kind of medicine in the months ahead for it will be feeding stimulants to an economy that will already be moving ahead under its own power, a situation that is apt to revive inflationary pressures, and distort the sound course of business expansion. Such a turn of events could weaken the still convalescing dollar and interfere with the normal processes of recovery.

* * *

EMPLOYMENT figures for April show the first "significant" upturn since the start of the recession, the Labor Department reports. Total nonfarm employment rose more than seasonally from mid-March to mid-April and the hours worked data were significantly higher. More jobs and longer hours mean increased payrolls, usually the best medicine for consumer morale.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Apr.'28	1961 May 5
Composite Average	538.5	410.9	524.3	538.5H
4 Agricultural Implements	497.2	346.4	485.6	489.5
3 Air Cond. ('53 Cl.—100)	171.9	105.8	162.0	171.9H
10 Aircraft & Missiles	1297.0	861.9	1275.6	1297.0H
7 Airlines ('27 Cl.—100)	1057.8	736.7	1017.1	1057.8H
4 Aluminum ('53 Cl.—100)	521.3	354.5	429.5	437.5
5 Amusements	423.9	209.3	423.9	411.5
5 Automobile Accessories	531.1	401.0	475.5	479.6
5 Automobiles	157.0	90.8	103.5	105.3
3 Baking ('26 Cl.—100)	44.6	34.9	41.0	41.0
4 Business Machines	1995.1	1159.1	1943.0	1995.1H
6 Chemicals	849.9	657.3	812.6	849.9H
3 Coal Mining	36.1	27.2	34.1	36.1H
4 Communications	257.6	199.9	237.9	242.3'
9 Construction	231.8	143.3	216.6	231.8H
5 Container	1064.7	824.6	1022.4	1031.0
5 Copper Mining	366.3	275.4	366.3	380.1
2 Dairy Products	232.4	146.8	222.3	226.3
5 Department Stores	182.7	135.2	182.7	181.2
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	426.4	434.2
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	368.1	381.8
3 Finance Companies	971.3	648.8	931.1	971.3H
5 Food Brands	713.7	419.3	697.0	713.7H
3 Food Stores	310.8	232.1	293.1	310.8H

(Nov. 14, 1936 Cl.—100)	High	Low	Apr.'28	May 5
High Priced Stocks	329.1	262.7	323.2	329.1H
Low Priced Stocks	705.7	527.6	682.7	705.7H
5 Gold Mining	1226.0	810.8	1028.9	985.1'
4 Investment Trusts	170.6	136.5	158.1	163.7
3 Liquor ('27 Cl.—100)	1548.9	1098.2	1396.3	1548.9H
7 Machinery	637.6	402.9	627.8	637.6H
3 Mail Order	494.2	364.2	449.7	465.9
4 Meat Packing	298.3	223.9	287.9	287.9
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	178.3	185.3
9 Metals, Miscellaneous	443.1	313.3	409.6	443.1H
4 Paper	1237.1	867.3	1021.4	1050.8
16 Petroleum	828.6	609.0	821.4	828.6H
16 Public Utilities	464.3	341.6	456.3	464.3H
6 Railroad Equipment	109.3	75.8	105.3	106.9
17 Railroads	70.1	49.9	55.5	57.6'
3 Soft Drinks	1096.6	690.3	1049.8	1077.9
11 Steel & Iron	464.9	325.4	390.3	397.1
4 Sugar	100.9	63.0	79.5	80.8
2 Sulphur	832.4	563.1	804.2	790.0
11 TV & Electron. ('27—100)	126.5	86.8	120.8	126.5H
5 Textiles	258.4	183.3	237.0	239.0
3 Tires & Rubber	255.0	170.6	191.9	197.3
5 Tobacco	282.3	182.5	275.4	282.3H
3 Variety Stores	388.3	349.3	374.2	374.2'
16 Unclassifd (49 Cl. — 100)	323.6	224.0	309.5	323.6H

H—New High for 1960-1961.

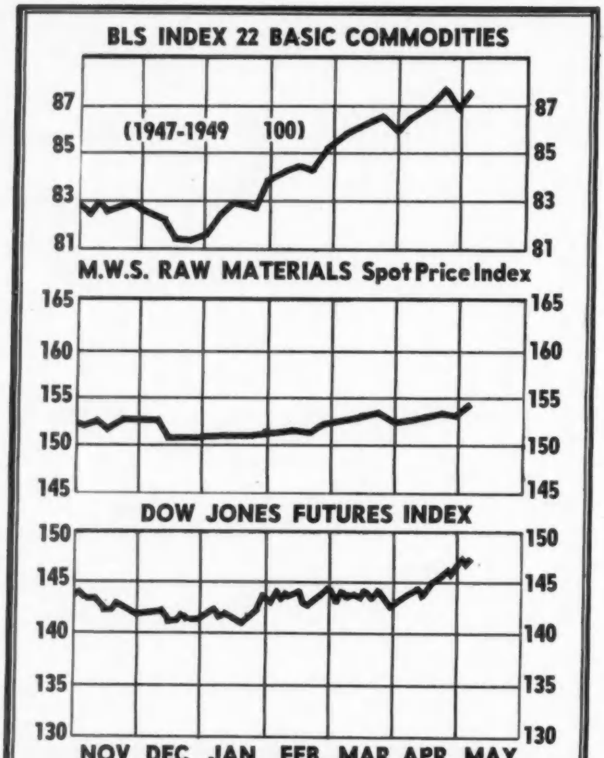
Trend of Commodities

SPOT MARKETS—Prices of leading commodities were mixed in the two weeks ending May 5. The BLS index of 22 such commodities lost 0.3% during the period, mainly due to lower food prices. Raw industrial materials followed divergent trends, with copper scrap, cotton, hides, tin and wool tops advancing while burlap, rubber, steel scrap and tallow declined.

The broad range of commodities meanwhile, continued to hold within a relatively narrow range. Farm products declined seasonally and foods were slightly lower. Industrial commodities and finished products were mixed, with lower prices for iron and steel scrap a feature. Narrow price changes are expected to continue for some time, with a tendency to firmness as the business pickup continues.

FUTURES MARKETS—Commodity futures continued to show a firm undertone in the fortnight ending May 5, with most markets registering price increases. Corn, oats, wool tops, world sugar, coffee, cocoa, copper and zinc all were higher while rye, lard, cotton, hides and rubber declined. Wheat and soybeans were mixed, with one month moving up while another was lower. The Dow-Jones Commodity Futures Index advanced 1.36 points to close at 147.0 after reaching a new high for the year at 147.5.

Wheat futures were mixed in the period under review. The old crop May option continued to decline while later futures were little changed. Developments that normally affect wheat have been in line with expectations and a trading market should continue.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	May 2	119.3	119.5	119.7	60 2
Farm Products	May 2	87.4	88.9	90.4	51 0
Non-Farm Products	May 2	128.0	128.0	128.2	67 0
22 Sensitive Commodities	May 5	87.3	87.6	85.4	53 0
9 Foods	May 5	78.5	79.1	76.8	46 5
13 Raw Ind'l. Materials	May 5	93.8	93.9	91.7	58 3
5 Metals	May 5	93.8	94.1	93.1	54 6
4 Textiles	May 5	82.6	82.7	80.9	56 3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	154.5	160.0	161.4	162.2	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	147.7	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1

Dissecting First Quarter Earnings Reports

(Continued from page 259)

established aluminum operation hardly got off the ground before that industry fell apart. Olin also had troubles with its rifle contract for the U. S. Army. All these factors contributed to the sharp drop in earnings to 38¢ from 64¢ a share last year. (See special analysis in this issue.)

Air Reduction was another casualty of reduced steel operations in addition to the general business slowdown. The sale of industrial gases, especially oxygen to the steel industry, fell severely, reducing earnings to 71¢ from $1.04 in last year's first quarter. As steel operations pick up however, Air Reduction's fortunes should take a decided turn for the better.

Union Carbide suffered the same fate. Its operations are closely tied to the steel industry and hence follow in line with steel output. Greater diversification however, softened the blow somewhat for Carbide and allowed it to turn in a relatively better quarter than Air Reduction. Still, earnings fell to $1.12 from $1.40 per share last year.

The balance of the year looks better. Steel output is rising, and the company was also just awarded a $100 million contract by the Atomic Energy Commission for uranium. The contract stretches through 1966, but deliveries began in April 1961.

Metals Mixed

The copper industry began to show signs of improvement late in the quarter. **Kennecott's** $1.46 per share failed to match last year's $1.65, but prices have just been raised indicating that things will get better. **American Smelting** wasn't as fortunate, reporting a decline to 71¢ from $1.22 last year. However, with higher copper prices and a general industrial pick up there should be improvement as the year progresses.

The aluminum companies are still not out of the woods, however. Overcapacity is still the main problem, hitting profit margins especially hard when business declines as it did in the first quarter.

Kaiser Aluminum, Reynolds Metals and Alcoa all suffered sharp declines in both sales and earnings. As the economy picks up steam later in the year, profits should improve as sales rise, but there is still no sign of an upswing in profit margins. It will take at least another two years before the entire industry grows into its current capacity. Then, the impact of new products and modern plants should lead to real betterment.

Summary

The most significant thing about first quarter earnings is their adherence to form. In effect, there was nothing surprising about them, except for the failure of food companies to turn in better results in view of the mildness of the recession.

American industry has just been through a massive rebuilding process. This new capacity represents enormous current costs that cannot be met unless revenues expand. Since this is generally impossible in a recession, profits must contract sharply. However, the same factors explain why profits should resurge quickly once the business picture improves. New and efficient capacity will be used while the old and inefficient will fall by the wayside. Hence, unless a massive strike in the automobile industry throws the economy into a tailspin again, the first quarter evidence points to an earnings year about in line with 1960 for most industries, even if the recovery is as mild as the recession. The "middle years" of absorbing our higher capacity are still in process, and should continue for at least another year or two. If we can weather this period without serious setbacks, the latter years of the Sixties should show a rising earnings trend again. END

When Will Airlines Emerge From Profitless Prosperity?

(Continued from page 267)

Member Whitney Gillilland, commenting on the drop in average load factors to 61.4% in 1959, pointed out that an increase of one point in this relationship of traffic to available seat-miles would yield the industry about $26 million a year in added revenue. Since it costs virtually noth-

ing to carry a few extra people on a plane, this in effect would be a direct addition to pretax net income. Thus, a mere one point upswing in the load factor would have added roughly $12.5 million to industry net income last year, a period when earnings were about $1.2 million. It is important to remember that as revenues continue to grow larger, the dollar swing caused by a slight change in load factor will become increasingly more dramatic.

►An interesting example of this leverage was provided recently by Continental, which picked up extra traffic during the month of February when competitors were strikebound. The company's load factor shot up to 53.9% from 48.3% in February of 1960. The resultant 24% year-to-year increase in operating revenues was translated into a whopping 1190% jump in net operating income!

Thus, the stage could be set for a dramatic upswing in airline earnings in 1962 if business conditions remain healthy. With the peak of jet deliveries to be felt this year, managements will have somewhat more freedom in tailoring capacity to demand next year. Given any kind of luck with weather and other breaks, the long-suffering airline shareholders may be able to read more impressive earnings statements next year. But this, of course, is only a speculative possibility at this juncture and in an industry where things happen with dramatic suddeness it is never wise to look too far ahead.

Jets Very Durable

Another constructive factor which should be mentioned is the strong possibility that today's jet aircraft will have a long useful life. This suggests two conclusions: equipment ordering will be done at a less frenzied pace in the future and perhaps capacity will be kept in closer relationship to demand. Also, depreciation charges may actually begin to taper off and become less of a drag on reported earnings, reflecting the long useful life of jet planes. The threat of a supersonic aircraft does not seem large at this juncture since there are many design and operating problems still to be solved. Introduction of supersonic equipment will probably not occur until around 1970 and then its use will be confined to specific long-haul routes; international rather than domestic services will probably see this type of aircraft first.

Speculative Values Present

Combining the bleak, uncertain nearby outlook with the more constructive factors in the air transport situation, the overall picture is not quite as bad as it first appeared. Generally speaking, the market seems to have sensed this, since the stocks led by Delta and United, have moved up from their lows. American and Eastern have more or less brought up the rear, probably reflecting fears that their dividends are not secure. Considering that the news immediately ahead is likely to get worse before it improves, the group could well be vulnerable to adverse spot news developments. While there are no real investment values to be found in this erratic industry, the shares of the better-quality lines do offer good trading possibilities from time to time. With the industry bumping along at low profit levels now, the next major change in its fortunes should be for the better. Hence, the stocks will probably

work higher over a period of time, parallelling revival of airline earning power. **United** and **Delta** are the best values in the group. The alert speculator will watch for opportunities to participate in the group via the shares of these two well-run companies. END

Department Stores Show Basic Strength Now

(Continued from page 263)

gomery Ward appears in this issue in the interesting article: "Seven Stocks That Are Disturbing Investors". Suffice to say here that the problems in this situation run deep, for this company did little more than accumulate cash for years expecting a depression that never came. By the time Chairman J. A. Barr took over, its facilities had been neglected far too long. It had lost trade position in the communities where major stores were located, and the Ward reputation had generally declined. The road back is a difficult one; it is now apparent that this giant store cannot be revived in just a few years. Its management is making a truly dedicated effort to build new stores, set up automated warehousing, and streamline all internal procedures. To quote a close associate of Barr, "Barr will probably turn Montgomery Ward around, but he'll kill himself in the process".

J. C. Penney: (40) A combination of the recession, start up costs to get the credit plan underway, and markdowns often due to inventory accumulation because of poor weather, caused Penney's earnings to decline 12.9% in the year just ended to $1.82 per share. However, during the year the company added some 2.0 million square feet to total floor space. Policy is to gradually replace older stores with large new stores, often in shopping centers, to expand stores that are doing well, and to bring in some higher priced lines of merchandise that may be sold more easily with use of the new credit plan.

It is of interest that right after World War II the average new store contained 12,000 square feet, but in 1960 the new stores added, averaged 45-50,000 square feet. Thus the total number of stores has increased only moderately in recent years as less efficient stores are closed, but the total selling area has increased dramatically. The credit plan was originally scheduled to cover all stores by the end of 1963, but is now scheduled to cover them by mid-1962.

In 1960, 8.5% of total sales were credit sales. (As a junior department store chain highly dependant upon lower priced soft goods, some question still remains concerning the applicability of credit, to this type of operation. The stock, a quality issue, is worth holding in conservative accounts. The $1.50 dividend provides a safe yield of 3.8%.

Sears, Roebuck; (59½) This most interesting company, along with the other mail order firms, will in all liklihood be reviewed in more detail at a later date. It is of interest here to point out that Sears obtained record sales in 1960, despite the recession that especially effected the sale of hard goods. (65% of Sears' volume were sales of various hard goods.) With some markdowns

in effect, earnings declined moderately to \$2.55 per share from the record \$2.65 in 1959. The company predicts that the general economy and retail trade will be on the upgrade by the middle of this year, and that Sears will benefit.

Also of benefit to sales will be the special promotion in connection with Sears, Roebuck's Diamond Jubilee, celebrating the company's 75th year. Eleven new stores, largely in suburban areas, will be opened in 1961 and construction will begin on 21 additional stores. Allstate Insurance continues its growth, and in 1960 passed the half billion dollar mark in premiums written, a gain of 14.5% over 1959. At the end of 1960 Allstate insured nearly 7% of all passenger cars in the U. S. and Canada. Allstate's net per share in terms of parent company stock amounted to 53 cents vs 46 cents last year, and dividends paid to the parent company amounted to 27 cents per share. Sears' stock, although it might seem amply priced at 23.4 times last years earnings, continues to be a sound holding for continued growth over the years ahead. END

France At A Crisis

(Continued from page 255)

ment is being done primarily by the French Government. However, the Algerian subsidiary of Compagnie Francaise des Petroles, a private French firm, owns a 50% share in the Hassi Massaoud oil fields. The Shell group has a 35% interest in the Edjele concession. Esso (Sahara), Ltd., a subsidiary of the Standard Oil Co. (N.J.) is beginning its first exploratory well on a concession it shares with French interests.

● **In the forthcoming French-FLN negotiations the FLN is going to claim that the Sahara is an inseparable appendage to the heavily populated strip of Algerian territory lying along the Mediterranean coast. It has been administered in this fashion for 115 years of French rule. Since 1957, however, one year after oil was discovered, France has claimed that the Sahara is a separate entity.**

● ***On this issue* there is also room for bargaining. France wants this vast area, nearly three times the size of Texas, to be administered jointly by the territories neighboring it as a part of the French Community. These states would include Morocco, Tunisia, Mauritania, Mali and Niger, as well as Algeria. The FLN's allies in its long nationalist struggle, Tunisia and Morocco, are likely in this case to help swing Algeria toward the French position.**

In any case Algeria would need the access to the oil-hungry Common Market that only ties with France could provide. Also, the Saharan oil would do Algeria little good without French money and skills to develop it. On the other hand, France needs assurance that the pipelines to the Mediterranean will have a safe corridor through Algerian territory where at present they must be heavily guarded.

● **It is clear that on the two big issues—guarantees for the European settlers and ownership of Saharan oil—there is considerable room for bargaining and clearly no reason why these issues should completely block an Algerian peace.**

Importance of French-Algerian Trade

► One other factor ought to be mentioned, for it is a source of inter-dependence in French-Algerian relations and that is the nature of their trade structure.

In 1960, 82% of Algerian imports and 80% of Algerian exports were claimed by France. The huge trade surplus France runs annually with Algeria is balanced by heavy military expenditures and investments in Algeria. Investments and foreign aid would undoubtedly be stepped up under the Constantine Plan. Furthermore, 80% of French sales in Algeria are manufactured goods, and loss of this substantial market would be a blow to French industry. On the other hand, Algerian agricultural products, constituting 90% of Algeria's 1960 sales in France, are dependent upon continued access to this rich market.

As de Gaulle Sees It

There is a touch of irony about the role of a man like General Charles de Gaulle, a person steeped in the grandeur and glory of France's great imperial past, presiding over the dissolution of the French empire. But this is

precisely what he is doing.

In his view, the traditional colonial empire is dead, not simply because the rising tide of nationalist opposition demands it, but because an industrial nation can now find greater sources of strength within its own boundaries and in close association with other industrial nations, than in the struggle and expense of trying to hold an undeveloped raw-materials-producing colony within its grasp.

Indeed, as he pointed out in his April speech, the remnants of France's 19th Century-style empire have imposed upon it:

"Obligations and burdens which are no longer in keeping with the requirements of her strength and influence.

"It now seems to the most powerful nations that their future, their welfare and the potentialities of their world action depend on their own development and on the cooperation of the formerly colonized countries, much more than on domination imposed on allogeneous peoples.

"Our interest and, consequently, our policy, lies in decolonization."

Therefore General de Gaulle will seek close and mutually beneficial ties with a free Algeria. But if this is not possible, he will let Algeria drift free to follow its own course, for his main objective is not Algeria, but France and the Continent.

There is a sense of urgency in General de Gaulle's efforts to revitalize the French economy. Parliamentary processes are suspended and power is dangerously concentrated in the hands of one man. He is already 71 years old and he must hurry before opposition forms against him and his time runs out. Already discontent over his austere economic measures is beginning to come to the surface in ugly riots. However his first step is to stop the costly drain of the Algerian war. "The fact is that, to say the least, Algeria costs us much more than she is worth to us."

In the seven years of fighting, the Algerian war has taken the lives of 15,000 of France's finest youth, as well as 350,000 Moslems. It has pinned down half of the French Army and has squandered more than a billion dollars annually.

Remarkable Accomplishment Under de Gaulle

► The French economy has made an impressive comeback since the destruction of World War II. Two years of General de Gaulle's austerity has pulled the growth rate up from a sluggish 1.5% in 1958 to an impressive 5.8% expansion last year. From the billion dollar trade deficits of the pre-de Gaulle era, France has snapped back with a $586 million surplus last year. $468.5 million in foreign debt was also paid last year, about two-fifths of it before the date due. Moreover, the new franc has become so sound that not a dollar was lost in the currency market during last month's four day crisis.

But when gains such as these are assessed, it is not generally taken into account that France has been at war almost continuously since 1939. If this costly attrition can be stopped, the basic balance and strength of the French economy will assert itself and propel France to unparalleled heights.

Therefore, if the key problems of protecting the one million Europeans in Algeria and settling the Saharan oil rights can be worked out, and there are strong possibilities that they can be, the four-day revolt that plunged the Western alliance into deep anxiety will not, in the long run, have weakened France but will have actually carried it one step nearer its goal of a strong France in the heart of Europe. END

Analyst's Diagnosis Of Stocks Disturbing Investors

(Continued from page 271)

many of them in shopping centers. The retail division was also reinforced by the acquisition of the Fair, a prominent Chicago department store chain, in 1957. This gave Ward, which has traditionally favored the more rural areas, its first direct representation in the Chicago area.

Somewhat curiously, perhaps, Ward has simultaneously reinforced its mail order business. Even with the ready accessability of the retail stores and their large stocks, mail order shopping still offers worthwhile advantages in terms of selection, price and con-

venience. Two thirds of this business now originates, however, from 627 carefully appointed catalog stores rather than from isolated farms. Care has also been taken to assure that direct retail and mail order lines are complementary rather than competitive, and they are both operated, in fact, as a single merchandizing division.

Although Ward has owned and operated its own paint factory since 1908, it has not otherwise followed Sears' example of controlling manufacturing subsidiaries. An initial step in this direction has now been made by the organization of jointly owned affiliates with two existing companies for the manufacture of water pumps and power lawn mowers, respectively.

It Would be a Shock to Sewell Avery

This program has not been inexpensive. The company's cash and equivalent, which hit a peak of $327 million in 1955, was drawn down by last year to a sparse $32 million, and for the first time in many years funded debt appeared on the balance sheet at the end of fiscal 1959. Approximately $500 million of additional capital for further expansion wil be raised indirectly through the recently created Montgomery Ward Credit Corp. and M. W. Real Estate Corp.

But these changes, sweeping as they have been, have not yet produced tangible results — in terms of stockholders' dividend checks. On the contrary, the downward trend of earnings has not even been checked. This is despite the confident claims of management, on several occasions, that the corner had been turned. To be sure, 1960 sales did establis a new record high—but only by a narrow margin of 2½% over a period as far back as 1948.

It is now clear that it will take longer than anticipated to lead Ward back to an adequately profitable path. Despite the modernization program described, the 377 old stores still remain a large majority in the existing 529 retail outlets. And the new stores often require three or four years to reach a normal volume and profit level.

It does seem safe to assume that earnings are now at their bottom, but no rapid recovery can be taken for granted. At its present price level the stock appears to be adequately valued for the long pull, but probably represents no bargain.

U. S. Steel's Remarkable Post-War Progress

Contrasting sharply with a consumer-oriented company like Montgomery Ward, **United States Steel** has suffered primarily from external factors. Perhaps, however, the real trouble with Big Steel has been only investors' unjustified expectations.

For many years the steel industry was always cited as the prime example of extreme fluctuations — the typical prince-and-pauper manifestation. But after Steel's net income began a remarkably steady post-war advance, climbing from 63¢ a share in 1945 to $7.33 in 1957, it became not uncommon to hear its group described as a conservative investment medium, or sometimes even as a growth industry! Within five years the stock climbed from as low as 17, in 1953, to a high of 108 in 1959, a multiple of 21 times the previous year's earnings. This represented inflationary optimism, and the subsequent drop into the 60's was a normal correction as operations fell below their 1955 level. U.S. Steel that year shipped 25.5 million tons, from which point a 27% decline in shipments of 18.6 million tons in 1960 had occurred. The 1959 steel strike was accepted by investors philosophically, because everyone believed that it was a prelude to an extended period of filling heavy accumulated demands. But somehow, what everyone assumed did not materialize, and no more than a very slight recovery ensued in 1960, so the disappointment was bound to be reflected in adverse stock market action.

Strong Natural Resources Position

At the moment, steel output is at a 67% level, as compared with 50% only a few months ago, and the interesting phenomenon in this situation is that the company was able to show good earnings at this reduced rate. At the same time, Big Steel continues to possess some extremely impressive assets. With ingot capacity of 42

million net tons it is by far the world's largest producer of steel and iron. Its wholly owned United Atlas Cement is one of the largest manufacturers in the country, accounting for about 8% of domestic capacity.

U.S. Steel possesses a particularly strong raw material position. Large ore reserves with an iron content above 45% are still held in the Lake Superior region, while a source of high grade concentrates is now being developed in Canada by the wholly owned Quebec Cartier Company. The phenomenally rich Cerro Bolivar deposits in Venezuela have been worked profitably since 1954, and a partially owned French company is currently developing a large deposit of high grade manganese ore in Gabon, West Africa. These acquisitions are connected with the company's domestic furnaces by a system of wholly owned steamship and railway lines. While the increasing dependence upon foreign ores admittedly carries some political risks, such risks are almost unavoidable in this modern world.

Of interest to investors is the fact that this company has substantially lowered its break-even point, signifying a vastly enhanced investment status. U.S. Steel's $5.16 a share last year was earned on an output of only a trifle above 65% ingot capacity of 41.9 million tons. It is not necessary to point out the favorable earnings leverage that will ensue as steel production gains momentum. A wage rise is scheduled for October 1st but this will most likely be offset by higher prices.

Westinghouse Has More Difficult Problems Than Price-Fixing

In the case of **Westinghouse Electric**, its recent negative market performance may be attributed partly to its role in the price-fixing scandals. The $372,500 fine levied against the company was negligible, but private damage suits and a general loss of prestige could be much more costly.

But this is not all that is wrong with Westinghouse. Although sales have nearly doubled since 1950, net income per share has been drifting slowly downward. While the constantly rising trend of electrical consumption should have augured well for every manufacturer of related equipment, price-cutting and excess capacity have cancelled out all of the benefits.

Although only half the size of General Electric in terms of sales volume, Westinghouse is equally well diversified. Besides its consumer, heavy apparatus and industrial equipment divisions, the company has been a leader in atomic energy development and also ranks as the second largest manufacturer of elevators. It has also maintained its pioneer status in radio and TV broadcasting.

But diversification and strong basic demand for its products have not proved an adequate guarantee of expanding earning power. Westinghouse has somehow required greater working capital than G.E. to support half the volume of sales, suggesting inadequate inventory control.

Although electrical consumption has been growing at a phenomenal rate, regularly exceeding the estimates, it is sobering to remember that Westinghouse entirely failed to benefit from this growth during the decade just ended. A somewhat more optimistic position can be adopted for the future, and yet the stock does not yet look particularly attractive in its current price range.

Borg-Warner's Loss of the Ford Transmission Business

Automotive equipment companies like **Borg-Warner** have to remain particularly flexible because their major customers are always tempted, in the struggle to maintain their own profit margins, to extend integration one step further. Borg suffered such a shock in 1958 when, in one fell swoop, it lost its important Ford transmission business; earnings plunged correspondingly to $2.34 a share, the lowest level since 1946.

The inevitable answer to such risks as this has been diversification, and yet very substantial diversification progress has not halted the earnings erosion.

Borg acquired its Norge refrigerator division—its profits mainstay in the 30's—as early as 1929. The Norge line was allowed to deteriorate during the war and proved more of a liability than an

asset in the early 50's, but more recently has enjoyed a very successful come-back under the leadership of dynamic Judson S. Sayre.

The acquisition of the York Corporation, a manufacturer of large-scale industrial and commercial air conditioning installations, in 1956, has been outwardly successful, and yet the air conditioning industry has been plagued by excessive competition and cool summers. Byron Jackson, a leading producer of oil well drilling equipment, seemed particularly favorably situated when picked up by Borg-Warner in 1955, but has subsequently encountered the surfeit of oil and the general decline in exploratory activity.

These, and the various other acquisitions, have failed to bring financial salvation in the past decade. Although sales volume had doubled since 1950 (but has shown no net advance since 1956) earnings have really stood still. Dependence upon the automotive industry has been sharply reduced, but the new divisions have enjoyed substantial lower profit margins than auto parts once did. Administration is completely decentralized, but this may conceivably strain the supervisory abilities of central management.

Last year's earnings dropped to $3.01 a share, after a recovery to $4.36 in 1959. Right now it does not look like more than a narrow improvement can be expected in the current year, although the $2 dividend is fairly safe. The issue is one of the more reasonably priced in terms of earnings in the current market, and on this basis has some attraction, but it cannot be assumed that the company's problems are at an end.

The Test of Management

The foregoing review shows a wide variety of corporate problems, although, of course, excessive competition, rising costs and weak prices are almost universal themes. Some of the problems are peculiar to individual companies, while others are industry-wide. Attempted solutions are sometimes contradictory; Olin-Mathieson, for example, is now working for greater centralization of management, while Borg-Warner is simultaneously practicing considerable decentralization. The final test for any prescription must be, of course, its success. The constant recurrence of serious problems in corporate life is inevitable, and investors must satisfy themselves in each individual case that such problems can be surmounted and that management is capable of this accomplishment. END

The Shift And Change In The Aircraft Industry

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last year's $2.71 deficit should change to about a $2.00 per share profit. The reduced dividend will remain unchanged, however, especially since its 990 jetliner has failed so far to obtain full FAA certification. Further modifications are required.

Flat Trends

A few companies with excellent long range prospects will show little, if any, earnings progress this year. **McDonnell Aircraft,** which is producing the space capsule that will carry our first astronaut into orbit, continues to excite investors because of its excellent management and steadily widening profit margins. However, the $100 million Mercury Project is stymied by the slow pace of engine development, while the company's lucrative F-101 jetfighter contract will virtually end in 1961. Hence, despite highly efficient operations, revenues will decline substantially in the current year. Earnings will hold up better than sales, but will not be able to top 1960's record results.

Thompson Ramo will also fall slightly behind in 1961, although the decline in earnings should not be serious. Part of Thompson's problems stem from its accelerated research and development programs. But, in addition, the recession which spilled over into 1961 hurt its bread-and-butter automotive lines.

Thompson's future is bright, however. Since relinquishing its job as coordinator of the entire Air Force space program, the company has been free to bid on lucrative contracts. With its intimate knowledge of the technology required, and its excellent organization, the company should become a Pentagon favorite.

Summary

The aircrafts offer both exciting prospects and dangerous hazards. On the one hand, lucrative contracts are constantly being handed out. On the other, military strategy and political expediency lead to constant change and frequent cancellation of contracts.

Investors seeking participation in the industry should stick to

the biggest companies, since their chances of being part of any programs that develop are best. Bargain seekers with patience should consider United Aircraft, since this deeply depressed stock seems certain to be back in the major league in a few short years. END

New Inflationary Price Upsurge Coming Now?

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labor costs will continue to rise faster than productivity, economists believe. The wage-price spiral has been more or less "dormant" during the past year but has not been checked.

The steel industry apparently already has begun to hint at the likelihood of markups in steel prices, to compensate for wage increases last December and the increases scheduled for October 1, 1961.

These markups must wait upon increased activity in the steel industry, but it may not be many months before the industry is operating much closer to full capacity. With inventories low, consumers of steel are not likely to be in much of a position to resist markups.

Inventories versus Prices

That holds true, too, for users of numerous other industrial materials.

The cautious inventory policy may have paid off while industrial materials were declining last year. But prices now have been inching up for several months, and it is not at all unlikely that, as business activity improves, prices of most materials will regain the ground lost last year.

Thus far, industrial purchasing agents have raised materials price increases but, with business activity tending upward, this has all the earmarks of a losing battle.

With both materials and labor costs rising, it is regarded as quite possible that the late Summer and early Fall will witness a rash of price markups in manufactured goods, if the current revival in business activity proceeds in line with expectations.

Throughout all lines of business, inventories are low relative to sales, and are tending lower as sales volume improves. Gradually emerging is a climate that it "made to order" for price increases.

Business must rebuild its inventories to meet the expanding volume of sales, and is in a poor position to resist price markups.

Higher Food Prices

At the moment, the Administration's farm bill appears to be bogged down in Congress, but there is little doubt that new farm legislation eventually will be approved.

And, even if the present bill is toned down considerably, the outlook is for higher support prices for farmers and higher food prices for consumers. True, new legislation is unlikely to become effective before next year for most crops, but the die already is cast.

The Food-for-Peace program, increased funds for what amounts to give-aways of farm products under Public Law 480, the expansion of the school lunch program, higher support prices already approved for corn, cotton, and soybeans leave no doubt as to the trend of farm products and food prices.

In recent years, as a result of the lowering of farm price supports, the trend of food prices has been downward. With prices of other commodities rising, apart from setbacks during the 1960 recession, the downward tendency of food prices has been a potent factor in the overall stability of the wholesale price index and slowing down of the price in the cost of living.

Now, all this is in the process of reversal.

Breakthrough Near

For over three years, the wholesale price index of the Bureau of Labor Statistics has held within a very narrow range, at or close to its all-time high of 120 on the 1947-1949 base. This high degree of overall stability has been the result of opposing factors.

Now, with farm products prices and food prices scheduled to move higher by legislative fiat, the end of this stability is in sight. And

deficit spending, resulting in a mounting money supply, would increase the upward pressure.

During the 1960-61 business recession, the BLS Consumer Price Index — commonly termed the cost-of-living index — gathered enough strength to move up to a new all time high of 127.5 (average 1947-1949 equals 100).

While retail prices of some commodities dipped a little during the most severe months of the recession, this was more than offset by the never-ending rise in the cost of consumer services.

Over the past year, the rise in the Consumer Price Index has been about 1½ per cent. This is not a large increase in itself, but any increase at all is large against the background of business recession and high level unemployment.

Over the next twelve months, it is highly unlikely that the increase wil be held down to anything like 1½ percent. With so many union contracts containing escalator clauses tied to the index, more wage increases and upping of the wage-price spiral appear to be almost inevitable.

Accelerated Growth

Recently, at the annual forecasting conference of the New York chapter of the American Statistical Association, it was stressed that the Gross National Product at the end of the current decade is likely to be in the vicinity of $700 billion, as compared with previous estimates of around $800 billion and the present level of approximately $500 billion. (All in terms of 1960 dollars.)

Large as the $700 billion estimate may seem, this represents continued rather slow economic growth, along the lines of the second half of the past decade.

This Administration, regardless of its current pre-occupation with international affairs, remains dedicated to acceleration of economic growth through stimulation of the "government sector."

Programs for accelerating growth are being held in abeyance until next Fall or early next year, in order to ascertain the strength of "natural" economic recovery from recession.

Even though business activity recovers substantially, it is almost a certainty that the gains wil be insufficient to please the proponents of accelerated economic growth. This is likely to be particularly true if unemployment still is fairly high.

Then, unless Congress balks, which may be difficult in view of the upcoming 1962 elections, the real pressure will be on to accelerate the rate of economic growth through increased Federal spending regardless of what this might do to the budget.

In Memoriam

The extended period of comparative stability in the price level appears to be about over.

The value of the American dollar, in terms of pre-World War II purchasing power, now has shrunk to slightly less than 47 cents. There seems to be little doubt that it will shrink still further in the years ahead, and the probabilities are that the rate of shrinkage during the next few years will be greater than in the past few years. END

Two Dynamic Oils For Investment Consideration

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growth characteristics however.

Union Oil of California, with per share earnings of $3.18 in 1958, $3.35 in 1959 and $3.96 last year is also forging ahead. Principal factors influencing this outstanding performance have been generally favorable industry conditions on the West Coast, a sharp rise in natural gas sales, and recent operating economies. Chairman Reese Taylor's longer term program of lowering costs, updating assets, and diversifying has been of significant importance.

Moreover, the trend is expected to continue as evidenced by first quarter earnings of $1.05 per share, up from $0.65 reported for the prior similar period despite price pressure on gasoline—the company's principal product. While West Coast imports from the Gulf area and foreign sources, along with increased retail competition. will likely continue to retard Union's gasoline progress, substantial and rapid increases in natural gas and petrochemical activities are expected to propell earnings ahead another 25% to $4.75 for 1961 as a whole. Like Atlantic Refining, Union is also benefiting from its ability to satisfy a larger proportion of its crude oil requirements from its own production. The company is currently supplying some 70% of its crude needs compared with a 63% average in 1960 and approximately 58% the prior year. Management has indicated a goal of 100% self-sufficiency, and accordingly is boosting production in Louisiana, Oklahoma and Canada as a step towards this end.

Union's success in recent years has resulted from a substantial change in operational philosophy. In regard to its exploration and development program, emphasis has been shifted to areas with better than average promise. The company has given up its concessions in Peru and will also surrender participations in Costa Rica and Guatemala. While contracting efforts in South America, the company has become increasingly active in the Spanish Sahara and in Australia, where Union has recently brought in the most promising well in that nation's history. With the exception of Canada, to these two areas will be allocated the bulk of 1961's foreign exploratory expenditures. In Canada, Union has made significant discoveries during the past two years in several important areas in Alberta and British Columbia. While the economics of the Canadian Oil and gas producing industry are such that these discoveries will be of little immediate use, they provide a definite enhancement of longer term earnings potential.

► **In the United States, the company's recent successes have been principally in the offshore Louisiana tracts, and in Alaska, where in partnership with Ohio Oil, Union has developed a large gas reserve on the Kenai Peninsula. A portion of these reserves have been dedicated to the Anchorage Gas Company with deliveries scheduled to commence later this year. Consideration is also being given to liquifying additional gas for shipment to the West Coast. Japan, Australia and the Hawaiian Islands. Another outlet may be created by the construction of company owned chemical and fertilizer plants in Alaska utilizing natural gas as a raw material. In addition to this venture, further partici**

pation in Alaska is provided by a small interest in the Socal-Richfield properties where production will commence shortly.

► During 1960 the company announced new discoveries offshore of Louisiana, in southeastern New Mexico and on properties along side of Union's Los Angeles refinery. These finds represent a continuation of a recent trend. Starting in the fourth quarter of 1958, Union's Gulf Tideland successes have reversed a steady deterioration of the company's domestic reserves which had been taking place since the early fifties. This year most domestic exploratory expenditures will be channeled to Gulf Tideland properties, where evaluation of several tracts purchased through Federal sale early in 1960 is expected to result in another sizeable addition to Union's reserves.

Natural Gas and Petrochemicals Expanding Rapidly

► **Increased gas production from New Mexico, Texas, Oklahoma and offshore Louisiana properties coupled with high rates, resulted in a 42% increase in natural gas revenues in 1960—the most important single factor in last year's earnings improvement. This year a further rise of 20% is anticipated, in part accounted for by additional Southern Louisiana gas which began flowing in December with the completion of an extraction and fractionating plant at Baton Rouge. With offshore reserves rapidly being developed, natural gas revenues are expected to continue to show impressive growth at least over the next three or four years.**

► Petrochemicals are also becoming of increasing importance. Conducted largely by 80% owned Collier Carbon Chemical, earnings from this source are understood to have exceeded $0.10 cents a share in 1960. If present objectives are realized this figure could be doubled in 1961 and tripled the following year. Collier's sales for the current year are estimated at $31 million, compared with less than $19 million as recently as 1958, largely as a result of a $12 million expansion program which began in 1958. Within two years sales are expected to rise another 50%.

Important Naphthalene

► Later this year Collier will begin producing 100 million pounds per annum of high-purity naphthalene in partnership with Tidewater Oil. A similar facility will be constructed by the partners adjacent to Union's Los Angeles Refinery. Profits from these facilities are expected to be substantial. Naphthalene is a key ingredient in paint, plastics, insecticides and dyes. In the past, produced principally from coal, the new units will employ a new manufacturing technique utilizing hydrocarbons as raw materials under a patented Union Oil process.

Within time upgrading to the manufacture of methye-naphthalenes and related aromatics is expected to follow. These chemicals have outstanding properties for potential application in making synthetic fibres, insecticides, plastics and rocket fuels.

Fertilizers Too

► **Collier Carbon is currently benefiting from a 250 ton per day sulfuric acid plant completed last November. This facility is converting waste hydrogen sulfide into high quality sulfuric acid, much of which Union in turn uses in the manufacture of ammonium sulfate, an important chemical fertilizer. In addition, sulfuric acid is marketed to other industries as well as used in Union's manufacture of high octane fuels.**

Employing a new Union developed process, a new facility was placed in operation in March to produce anhydrous liquid phosphoric acid. Further chemical expansion was gained through the March 1961 acquisition of Pacific Guano, a marketer of fertilizers, insecticides and herbicides in California, Arizona and Nevada. Pacific Guano is also the owner of a 60% interest in Western States Chemical, a California company engaged in the manufacture of high quality ammonium phosphate fertilizers. A huge capital expenditure program by Collier involving $11 million in 1961 alone, will provide Union Oil with a still larger stake in the future of petrochemicals within a few years.

Present Status

► In December 1960, Union completed a $20 million construction program at its Los Angeles refinery, and plans to spend an additional $10 million at its Oleum refinery in the San Francisco Bay area. Emphasis in these programs has been on improving the quality of the company's gasolines and diesel fuels, and to permit the production of a large volume of jet fuel specially tailored for commercial aircraft. Jet fuel is the nation's fastest growing petroleum product, with total demand this year expected to exceed 1960's by 50%.

Modernized refinery facilities, rapidly expanding natural gas and petrochemical volume, increasingly successful exploration efforts and one of the industry's top research laboratories have all been influenced in providing Union with an envious record of progress during the last three years. Future prospects favor a continuation of this trend over the next few years.

Substantial ownership of Union's common stock by Phillips Petroleum (soon to possibly be divested under a court order) and Gulf Oil's holding of $120 million of convertible debentures provide ample evidence of the industry's recognition of Union's favorable longer term outlook. An increase in the dividend rate to $2.00 per share last year may be considered another.

Conclusion

Union Oil of California and Atlantic Refining have concretely demonstrated an ability to upgrade earnings and assets during a period which has generally been considered an adverse one for the petroleum industry. Moreover, a base has been established to provide for further growth during 1961 and the years ahead.

Few other concerns of Blue Chip calibre can show a record of earnings improvement during the last several years to compare with that of Atlantic Refining and Union Oil of California. Currently selling at 9½ and 13 times projected 1961 earnings respectively, in a market capitalizing earnings of the Dow Jones Industrials in excess of 20 times, it would appear that perhaps the time has once again arrived to seek out growth opportunities among shares of leading petroleum concerns. Union Oil of California and Atlantic Refining are prime candidates for such consideration. END

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